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August 1984 • $2.25

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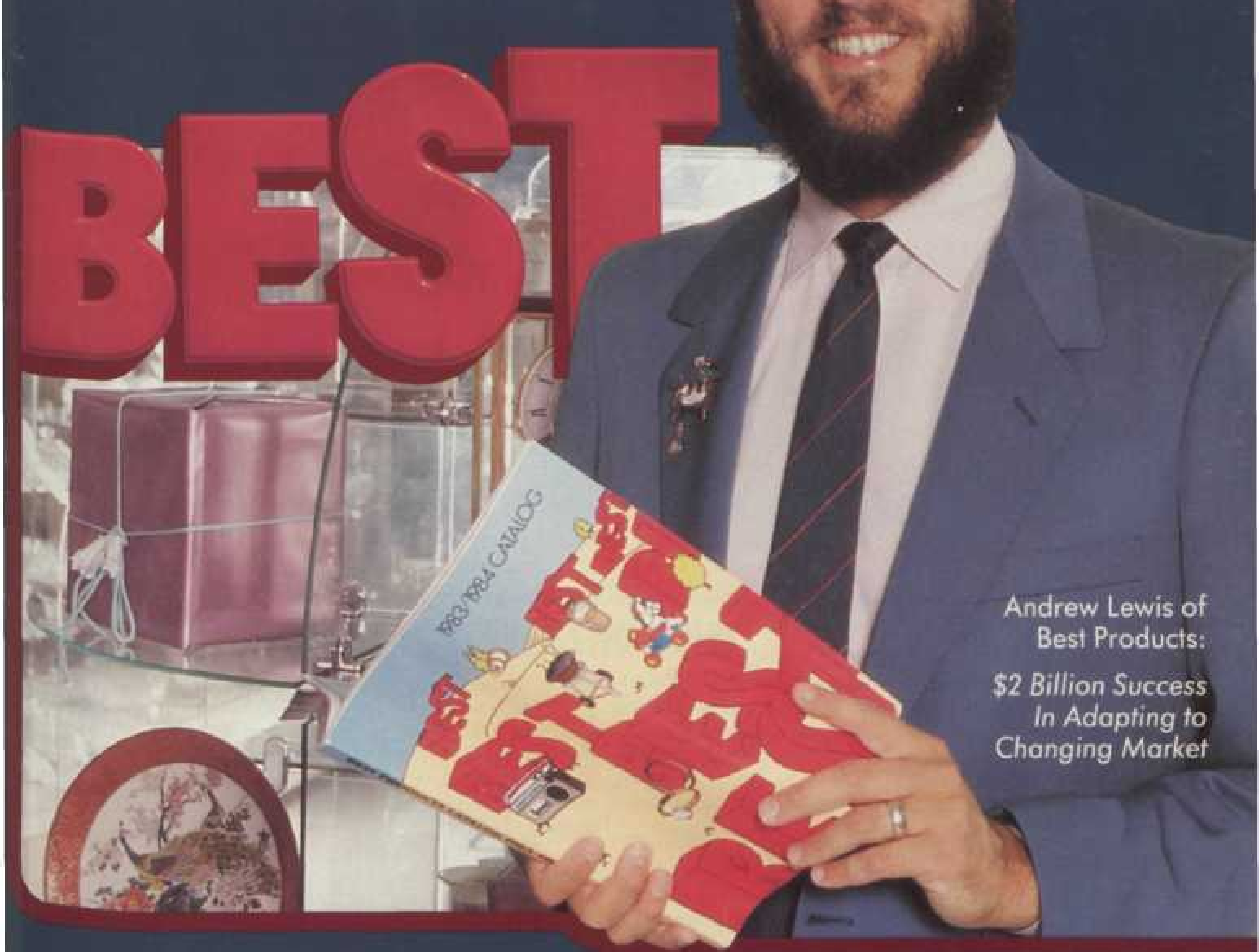

Andrew Lewis of Best Products:

$2 Billion Success In Adapting to Changing Market

The Escalating War On Bogus Goods From Abroad

Taxpayer Support Of Farming Headed For Showdown

Small Business Sets Priorities

How '84 Tax Law Affects You And Your Business

Note to Investors: Try Diversifying

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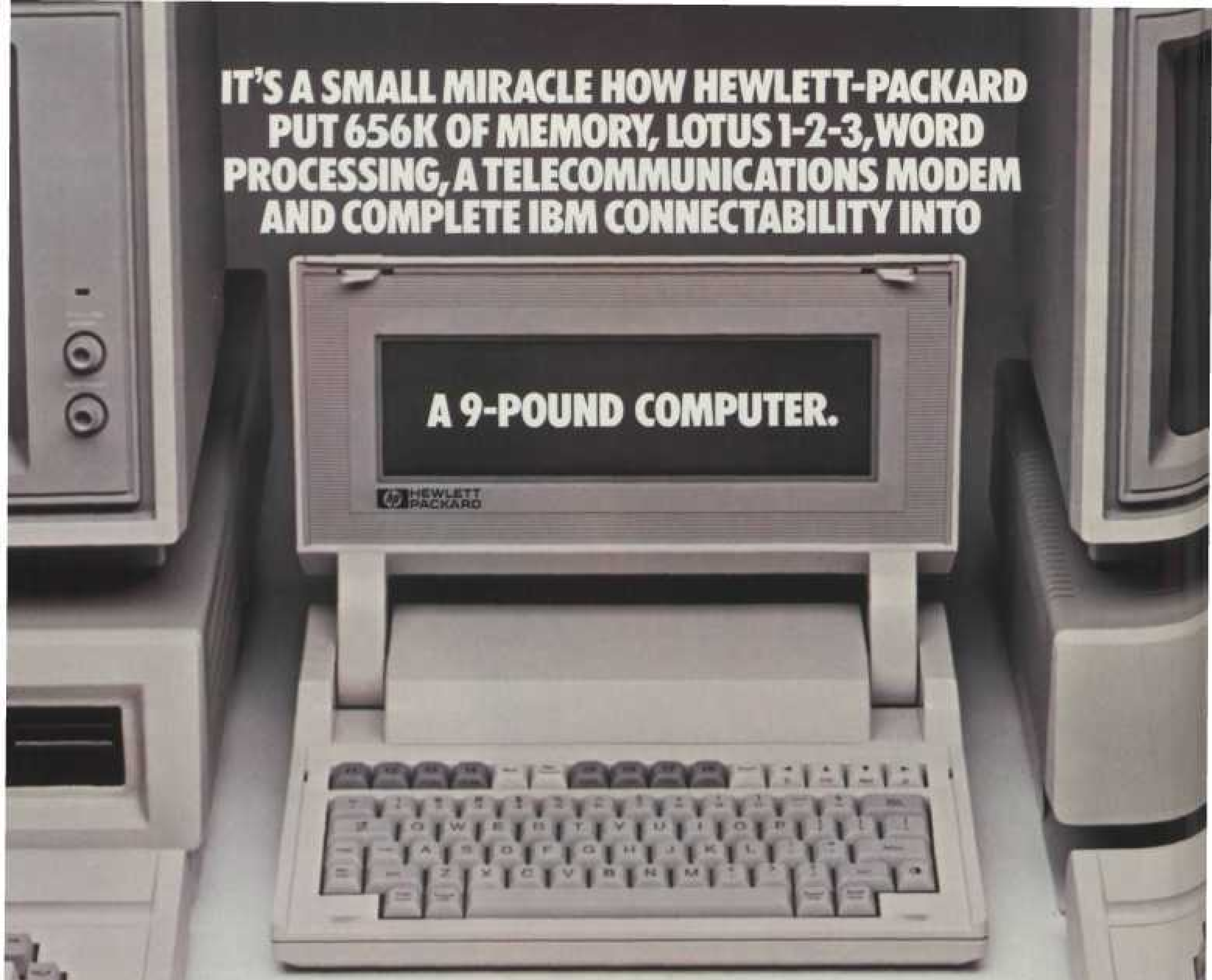

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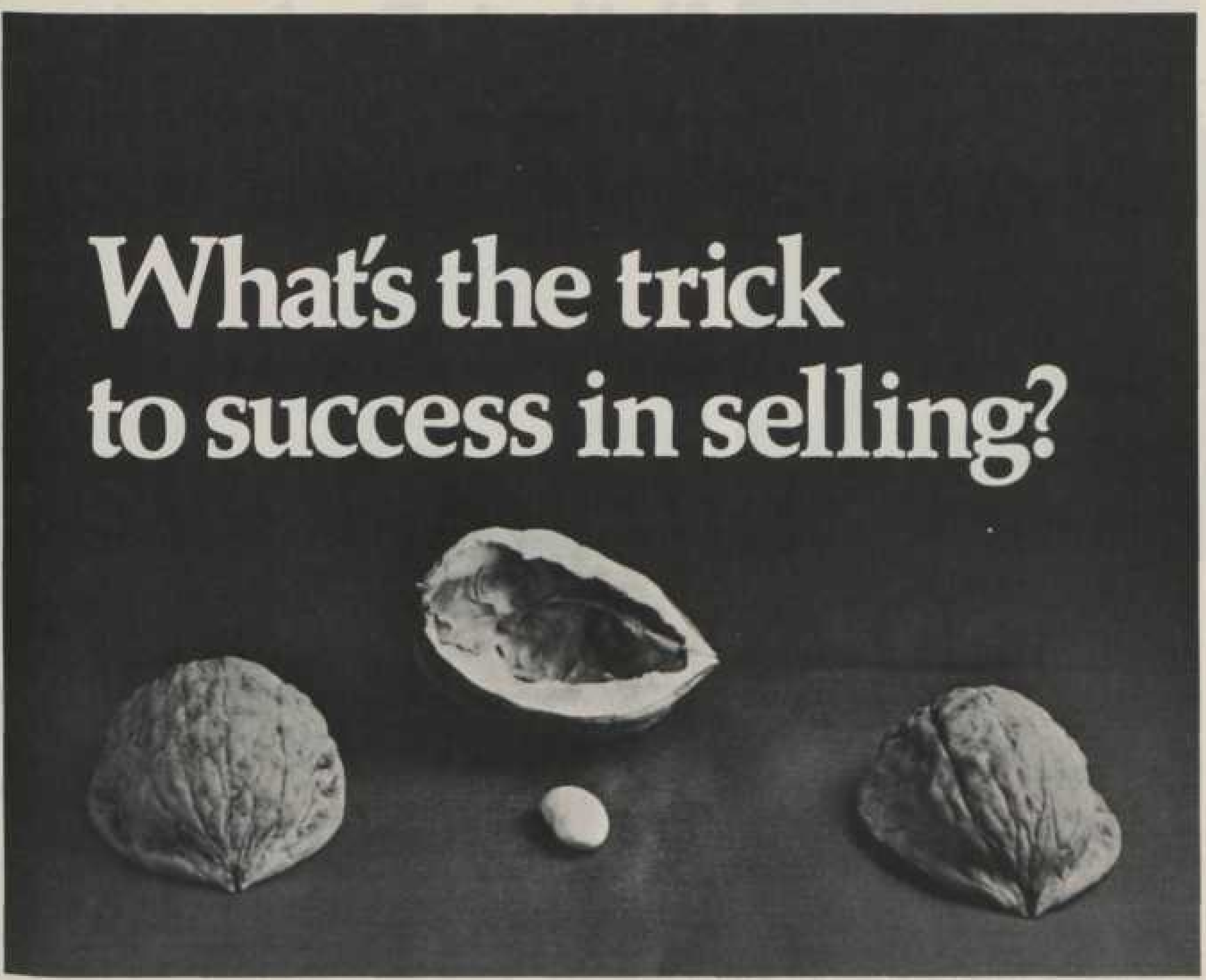

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Nation's Business®

Andrew Lewis says Best uses marketing tools for a "focused look" at the consumer. 18

The flood of counterfeit goods from abroad includes many fake auto parts, often so poorly made that they threaten health and safety. 30

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Except for asset-based financing, Ideal Toy might not have prospered with Rubik's Cube. 49

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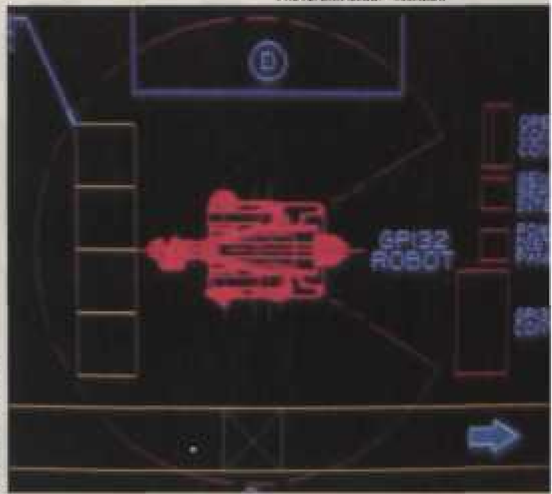

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Nation's Business (ISSN 0028-047X) is published monthly at 1615 H Street, N.W., Washington, D.C. 20062. Advertising sales headquarters: 711 Third Ave., New York, N.Y. 10017. Tel. (212) 370-1440. Subscription prices (United States and possessions): one year, $22; two years, $35; three years, $46; and in combination with the newspaper *The Business Advocate*, one year, $50; two years, $85; three years, $99. Printed in U.S.A. Second class postage paid at Washington, D.C.; and additional mailing offices. *Postmaster:* Please send form 3579 to 4940 Nicholson Court, Kensington, Md. 20895.

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Two Cloudy Crystal Balls

BACK IN THE summer of 1980, a group of experts brought together by the Council on Environmental Quality and the Department of State produced a disturbing report called *Global 2000*. The report was a stunner. The authors looked to the turn of the century and saw catastrophe ahead. Their projections indicated a world with too many people and not enough food. They foresaw vanishing forests and eroded farms. Such fortunate nations as the United States would be in good shape at 2000, but the peoples of less developed countries would be in desperate trouble.

The report was widely circulated. In a piece I wrote for NATION'S BUSINESS (February, 1981), I embraced these gloomy prophecies. Many editorial writers and several members of Congress echoed the authors' warning that steps must be taken—though we were not quite certain what steps should be taken—to avert the pending disaster. After a few months, for such is the nation's usual attention span, *Global 2000* was deposited on a high dark shelf in the national closet, there to gather dust with other federal studies and reports. I had clean forgotten the thing until the other day, when the Heritage Foundation sent me a copy of *The Resourceful Earth*, a collection of essays edited by Julian L. Simon and Herman Kahn. Now I don't know what to think.

Mankind has a way of coping with problems as problems arise.

Simon is a professor at the University of Maryland. Kahn, who died a year ago, was head of the Hudson Institute in New York. Under a grant from the Heritage Foundation, they set out to challenge the pessimistic assumptions and projections of *Global 2000*. In their view the 1980 report "is totally wrong in its specific assertions and its general conclusions." The report "is replete with major factual errors." Certain recommendations having to do with population control in less developed nations "are unfounded and unacceptable, ignorant and arrogant."

In sum, Simon and Kahn conclude that conditions worldwide are getting better, not worse. Barring the ultimate castastrophe of atomic war, they look to 2000 with great optimism. They confidently expect men and nations to produce an abundance of food and uncrowded housing. Natural resources will not be exhausted. Personal incomes will rise. The trend is not toward more suffering but toward less suffering. We should turn our backs on pessimism, they suggest, and hear some good news instead.

What is a layman to make of all this? The experts who put together *Global 2000* in 1980 were reputable scholars; they saw the world going steadily to the bow-wows. The 23 experts who contributed to *The Resourceful Earth* in 1984 also are reputable scholars; they take a diametrically opposite view. The doomsayers supported their projections with charts and graphs and statistics. The happy optimists of the Simon and Kahn work are equally well equipped. They can't both be right.

My own guess is that the truth lies somewhere in the middle. The two volumes oddly suffer the same flaw. The bleak picture painted in the summary Volume I of *Global 2000* was not altogether supported by the separate chapters of Volume II. Similarly, the belligerent assertions in the introduction to Simon and Kahn are not wholly corroborated by the individual essays that follow. To say, as the book jacket says, that the Simon and Kahn team has "demolished" the 1980 report is to say too much.

For example, the authors of *Global 2000* predicted that the world "will be more crowded" at the turn of the century. The Simon and Kahn introduction terms this forecast "dead wrong." Houses of the future will have "more floorspace" per capita and people will have "a wider span of area" in which to live. The forestry experts of *Global 2000* feared that 40 percent of the remaining forest cover in less developed countries would be gone by 2000. Simon and Kahn's introduction sneers at this forecast as "nonsense" that is "utterly without factual support." But population experts on both sides agree that population densities will indeed increase in coming years, and Simon and Kahn's forestry expert has no quarrel with the proposition that "excessive rates of deforestation" appear to be occurring in certain regions.

THE SIMON AND KAHN work would be more convincing if the introduction were not so pompous, boastful, and truculent in its tone. Herman Kahn was a genius; he had a high opinion of his own opinions, and he had a great many opinions. The introduction reflects his scorn for those he disagreed with. Putting the braggadocio to one side, I find the individual essays of *The Resourceful Earth* generally persuasive and encouraging. Taken collectively, these essays make the point that mankind has shown a demonstrable way of coping with problems as problems arise. Look at hybrid corn. Look at fish farming. Look at atomic energy. The human race will survive, but it would be folly to ignore all the warnings of *Global 2000*. We may not be headed for "catastrophe," but for the have-not nations of this planet, all is not sweetness and light. □

WASHINGTON LETTER

▶ THAT GRASS-ROOTS CAMPAIGN to force a balanced-budget amendment on Congress is still very much alive. California and Montana remain red-hot prospects for providing final two state petitions needed to make Congress call constitutional convention to adopt such addition to U.S. Constitution. Voters in those two states act in November election on proposals to require their respective legislatures to file petitions, thereby providing total of 34 states needed to bring about what would be first constitutional convention since framers met in 1787. Also a live possibility: Michigan legislature may beat other two states to the punch by approving petition in September.

▶ BUT MOST STATE PETITIONS contain delayed action mechanism giving Congress time to adopt balanced-budget amendment on its own before convention would have to be called. Whether such an amendment originates with Congress or convention, it has to win approval of 38 states before it becomes part of Constitution.

▶ ENERGY SUPPLY PICTURE IS SO GOOD this summer that Energy Secretary Donald P. Hodel worries about complacency. Right now, he points out, oil consumption in U.S. is down 10 percent from 1980. Imports are down 33 percent, Strategic Petroleum Reserve is up to 400 million barrels, and nation looks to Persian Gulf area for only 3 percent of imports. But Hodel says there's still need to move nation toward energy self-sufficiency through steps that should include reduced reliance on oil. He presses administration case for decontrol of natural gas, reform of nuclear licensing.

▶ STRANGE BEDFELLOWS: National Education Association, generally viewed as firmly in camp of Democratic left, pops up among allies of newly formed group that says it represents "historical Republicanism." Founders of Republican Mainstream Committee say they want GOP "to remember its progressive traditions" on arms control, civil rights, environmental protection, fiscal discipline. Rep. Jim Leach of Iowa is chairman, says committee will present its case to GOP platform committee at convention in Dallas. Pledging support for Reagan-Bush ticket, new GOP panel says its allies also include Common Cause, Sierra Club, National Women's Political Caucus and Center for Education on Nuclear War.

▶ TOTAL OF 37 STATES now have laws requiring that their private-sector vendors be paid promptly for goods and services. Those agencies that lag must pay interest. Similar legislation is pending in several other states. Spread of such laws is work of Washington-based Prompt Pay Coalition, made up primarily of representatives of small businesses. It has already won law imposing prompt pay requirement on federal agencies.

▶ EXPORTERS FACE major changes in tax rules as result of passage of Deficit Reduction Act of 1984. Foreign Sales Corporation provisions are key, but implementation by exporters will be highly complex. September 11 conference in Washington will cover all aspects of FSCs. For details, write Georgetown University Law Center, Office of Continuing Legal Education, 25 E Street, N.W., Washington, D.C. 20001. Center and U.S. Chamber of Commerce are co-sponsors of conference.

▶ CONGRESS' OWN BUDGET FOR FISCAL 1985 will go over $1 billion, which breaks down to nearly $1.9 million per member. House had called for 2 percent cut across the board, but Senate

WASHINGTON LETTER

turned it down. Bill provides $452.2 million for House, $269.9 million for Senate. Remaining third goes to joint activities that include budget and research offices, police protection and printing.

▶ THE PRINTING BILL ALONE for Congress is estimated at $80 million for the new budget year beginning October 1, which breaks down to nearly $150,000 per member. But some of those members feel taxpayers aren't getting their money's worth in the most important of all Capitol Hill printing activities, the Congressional Record. It purports to be verbatim transcript of what's said during sessions of both houses, is often cited in court cases, political debates and other forums as just that. Members can, however, edit their actual statements prior to publication.

▶ REP. JAMES T. BROYHILL (R-N.C.) is among sponsors of resolution to require that Congressional Record be accurate transcript of proceedings it's supposed to be. Proposal would also eliminate vast amount of non-congressional material, such as tributes to constituents, that now appears. Broyhill says changes would save money, "give everyone a more accurate picture of what happens."

▶ PASSAGE OF IMMIGRATION BILL opposed by some major national organizations still not guaranteed despite Senate, House approval of such legislation. Measures passed in each house differ, and a conference committee must resolve conflicts so identical bill can go back for final action. U.S. Chamber of Commerce, spearheading business opposition, says delay on conference decisions is providing time for private sector to realize extent to which measure would subject employers to extensive record-keeping procedures, penalize those who hired illegal aliens. Opponents in addition to Chamber include American Civil Liberties Union, major Hispanic organizations.

▶ IT WAS TOUCH AND GO FOR A WHILE, but business achieved victory in final outcome of bankruptcy legislation cleared by Congress for President Reagan's signature. Bill meets business goals of tightening procedures under which debtors can declare bankruptcy, brings procedures for appointing bankruptcy judges into line with Supreme Court decision that had invalidated earlier method. Major conflict was over organized labor's efforts to bar financially troubled employers from canceling union contracts. It appeared originally that labor would attain that goal in congressional rush to deal with crisis over problem involving judges, but end result was another in series of legislative, judicial setbacks for AFL-CIO.

▶ LATEST DROP IN JOBLESS RATE is bigger-than-usual plus for President Reagan in this election year. Unexpectedly big decline from 7.5 percent to 7.1 percent brings unemployment level below point at which it stood when Reagan took office. Rate went up significantly during early Reagan years, plummeted as recovery took hold. But President remained subject to criticism, now stilled, that rate was still higher than one he inherited from President Carter.

▶ THOSE AUTOMATIC ELEVATORS in office buildings of the House of Representatives will have operators for at least another year. Members once again rejected a proposal to save $88,000 a year. Rep. Hank Brown (R-Colo.), who urged the cut, was unsuccessful with his argument that "There is no way to justify people pushing buttons for members of Congress when those members are fully capable of pushing the buttons for themselves."

A Broader Corporate Tax Base?

By Gerald W. Padwe, C.P.A.

Last fall, Senate Finance Committee Chairman Robert Dole (R-Kans.) suggested that Congress consider a tax surcharge on corporations' "economic" income. It was clear that he had in mind a definition of economic income that was much broader than the existing definition of taxable corporate income.

The Tax Reform Act of 1984, passed by Congress in June, does not contain such a surcharge on corporate economic income, but the new law does significantly expand the definitions of corporate earnings and profits from which dividends may be paid. The change will affect primarily those corporations with foreign subsidiaries, as well as those companies (mostly public utilities) that have been paying to shareholders amounts that constitute dividends under state law but a return of capital for federal income tax purposes. The changed definition, while rather narrowly drawn, appears to be a foot in the door for the economic-income concept.

Some members of Congress and certain interest groups have complained that corporations are no longer contributing their "fair share" of tax revenues because of significant erosion in the corporate taxable income base over the past several years, as in the liberalized depreciation rules enacted in 1981. No commentator defines "fair share," but there is no dearth of critics claiming that it is not being paid.

A corporate tax surcharge on an economic income base might become more attractive politically if significant tax increases are legislated within the next few years. Thus, the expanded earnings and profits definition may be worth more than a casual glance.

"Reasonable Cause"

The Internal Revenue Code does not lack penalties aimed at deterring taxpayers from improper conduct. While some are criminal sanctions, most are civil and can be satisfied through the payment of money.

Many of the civil penalties may be abated by the Internal Revenue Service for "reasonable cause"—that is, when IRS determines that a taxpayer, though technically in violation of a Code provision, had reasonable grounds for his actions, and that failure to impose the penalty will not undermine tax policy or administration.

Most taxpayers and their advisers, when IRS is assessing a civil penalty (for, say, late filing of a return or late payment of tax), would contend that the agency is less than sympathetic to "reasonable cause" arguments for abatement. But the General Accounting Office, Congress' watchdog over the executive branch, recently made a study of IRS' abatements—and it concluded that IRS agents have been too *lenient* in accepting taxpayers' arguments.

As a result of the study, IRS is expanding its training of revenue agents in this area, has stepped up distribution of its handbook on reasonable cause for granting penalty abatements and has established a new oversight program to make sure that abatement requests are treated uniformly across the country.

For those taxpayers who have successfully argued for an abatement in the past, the message is clear: "Reasonable cause" will have to be a lot more reasonable in the future.

Reliance on Advisers

One argument for civil penalty abatement heard often by revenue agents is that the taxpayer relied on a qualified outside adviser (an attorney or an accountant, for example) in a relatively complex situation and merely heeded the adviser.

In a 1983 case decided by the Seventh Circuit Court of Appeals, an executor, having no experience in federal estate taxation, hired an attorney to handle the tax work for his mother's estate. Through a clerical error by the attorney's office, the due date of the estate tax return passed without filing, and the return was submitted to IRS three months late.

IRS applied a late filing penalty of more than $17,000. But both the trial and appeals courts held against the government on the ground that reliance on an attorney with more than 20 years' experience in probate practice was "reasonable cause" for late filing by the executor.

Now the U.S. Supreme Court has agreed to hear that case. It will probably rule sometime during the term starting in October.

Business Start-Up Costs

The costs of carrying on a trade or business are usually deductible from the current income of the business. But expenses incurred in the start-up phase are not considered to be for carrying on the business and, until a few years ago, could be neither deducted nor amortized.

Such expenses can include a market survey, pre-opening advertising, and training and salary costs of employes before opening day. (Under the 1984 tax act, they do not include interest, taxes or research costs.)

The normal tax treatment has been to include start-up expenses in the tax cost of the business to its owners. The owners would not receive any tax benefit from start-up expenses until the business was sold or terminated, at which point the expenses would reduce the amount of capital gain to be recognized. Since the maximum individual rate on long-term gains is only 20 percent, and the benefit might not come until many years after the expense was incurred, the effective tax saving was minimal.

Congress has recognized this problem, and for start-up expenses incurred after July 29, 1980, the law permits an election to amortize such expenses over a period of not less than 60 months, beginning when the business opens. A specific election must be made on the tax return for the year in which the business opens. Otherwise, the start-up expenses will generally be nondeductible, as explained above.

It is also important to pay attention to the fine but often hazy line between start-up and operating costs. If IRS claims that a deduction taken for an operating cost is, in reality, for a start-up cost (and that such a cost, since it was deducted in full, is not covered by the amortization election), it will argue that the taxpayer has lost any tax benefit for that expense until the business is sold or terminated. □

Note: For Your Tax File *is an information service for readers. See tax and legal advisers for guidance on all specific cases.*

GERALD W. PADWE *is national director–tax practice for Touche Ross & Co.*

Retiring Supreme Court Justices

James J. Kilpatrick's article, "The White House and the Court" [June], is without a doubt the best commentary on the Supreme Court that I have read. Thirty-four federal laws, 182 state laws and 13 local ordinances found unconstitutional in the 15 years of Warren Burger's reign alone is truly awesome.

We in the hinterlands never hear that the Supreme Court justices are sick or incapacitated, so maybe Kilpatrick is mistaken and they are immortal! The fact remains, though, that their fairest decision would be to hand down a retirement age for all justices and do away with tenure.

Needless to say, we need a constitutional amendment to limit these very mortal jurists. ELIZABETH E. KOTTNER
Pittsburgh

I usually find Kilpatrick's column interesting and enjoyable, but "The White House and the Court" is a horror story because it is true and nothing is being done about the situation.

I do not know how much influence writers such as Kilpatrick have on politicians; but, I would guess almost as much as they have on the general public, which is considerable.

Kilpatrick should advocate a limited term for the judges, or at least a mandatory retirement age. They should be treated no differently than anyone else in government. The President's term of office is limited. Members of Congress have no limit, but they are elected or voted out by the public.

The real horror is the ages of the judges and the fact that they are so far removed from the realities of our society on a day-to-day basis.

Generally, I find Kilpatrick a little far to the left for me, but I would sure enjoy seeing him lead an effort to change the Court. HARLEY GAINES
Charlotte, N.C.

A success who failed the test

According to the score I received on the quiz measuring the ingredients of the successful entrepreneur ["The People Who Take the Plunge," June], I should be a total disaster.

I am the type of person who would have trouble succeeding as the hired hand who performs menial jobs with limited supervision. The only thing I have in common with the average entrepreneur is that I am married.

I bought into an existing business that wasn't doing well at the time. In June, 1976, I bought out my partner. At that time we had three employes and a gross income of $250,000. Last year my company grossed in excess of $1 million. We now employ 19 people in a union shop. I have a full-service sign shop, specializing in neon.

I had better call my accountant and tell him that according to this article I'm not supposed to be doing as well as I am. Guess I better sell.

WILLIAM B. KLINE
President
Meyer Sign Co., Inc.
Seattle

Where did all the refunds go?

The headline for the June Business Outlook asked: "Will Refunds Be Spent or Saved?" Well, we bought a videocassette recorder with our tax refund and put the rest in a certificate of deposit.

I do not know what this will do for the nation's economy, but it should keep us happy—depending, of course, on what it costs to rent movies for the VCR. RONNIE HARRINGTON
Brooklyn

Let's hear it for housing

Re: "Housing, Still Healthy" [Business Outlook, June].

Consider what would happen if banks announced that home mortgages were available at 8 percent. The banks would have to hire more employes to handle

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LETTERS

the crowds applying for home mortgage financing. Contractors would start hiring craftsmen and ordering building materials. And soon, the new home owners would be buying furniture, appliances and other types of home furnishings.

Home building is the miracle industry. Unlike government make-work projects, which lead to higher taxes and so reduce consumer buying power, private housing pays for itself. It also increases government revenues. A study by the National Association of Home Builders in 1981 found that 1 million new homes generate 2.3 million jobs and $7.5 billion in taxes for all levels of government.

ABRAHAM H. KALISH
Silver Spring, Md.

Violating voluntarism

After reading "Measuring the Value of Work" [June] on the concept of equal pay for jobs of comparable worth, I believe the danger to our free society is the violation of the human principle of voluntarism.

Nearly all trade, business and human association is conducted voluntarily between people, based on respect for physical, spiritual and intellectual freedom—the cornerstones of liberty. The success of small entrepreneurs and of big business is based on this same principle—except where the coercive power of the government is imposed.

A law imposing comparable worth will be the ultimate government regulation of the individual.

GERALD H. BYE
Realtor
Philadelphia

Silicon not space bound

Although the article entitled "How a Space Venture Could Ease Suffering on Earth" [June] appeared to be generally accurate, I would like to make a correction. You stated that Microgravity Research Associates is going to space to grow high quality silicon crystals. Nothing could be further from the truth.

There is not enough potential improvement from space processing of silicon to make it cost effective. Gallium Arsenide (our first projected product) definitely does have such potential.

In certain market niches products processed in space will have such a decided advantage over their earth-based counterparts that they will absorb the high cost of space processing and transportation.

RUSSELL J. RAMSLAND, JR.
Executive Vice President
Microgravity Research Associates, Inc.
Coral Gables, Fla.

The Chamber of Commerce of the United States, publisher of NATION'S BUSINESS, is a federation of businesses, trade associations, local and state chambers, and American chambers of commerce abroad.

What Small Businesses Want

Cuts in federal spending and a fair crack at government contracts head a wish list hammered out by delegates to the Small Business National Issues Conference. A list of 41 policy recommendations has been presented to the White House and the Republican and Democratic platform committees.

The 100 delegates represented more than 5 million small business owners. The Washington conference was sponsored by the U.S. Chamber of Commerce, the National Federation of Independent Business, the National Small Business Association, Small Business United and the American Institute of Certified Public Accountants.

PHOTO: T. MICHAEL KEZA

Van Smith: "We must organize to elect candidates who understand that we are the creators of . . . progress."

Delegates to the conference were chosen by those five organizations on the basis of involvement in small business issues at the state and local levels.

Issuing a call to balance the federal budget by limiting spending rather than increasing taxes, the delegates urged an immediate spending freeze—holding fiscal 1985 spending at 1984 levels—and a downward adjustment in the cost-of-living formula used for federal entitlement programs.

The delegates endorsed several steps to give small business parity with larger firms, particularly in the areas of government contracts and taxes. Federal policy should require the government to buy goods and services commercially wherever possible, rather than doing jobs itself, the delegates said, and small firms should have "maximum opportunity" for participation.

Because small business tends to be more labor-intensive than larger firms, the delegates opposed further payroll tax hikes. They called for sweeping simplification of tax rules on debt-equity ratios, inventory and payroll tax deposits.

U.S. Chamber Chairman Van P. Smith, head of the Ontario Corporation, a family of small firms with total sales in the $60 million range, challenged his fellow delegates to produce broad-based policy positions and to work to elect members of Congress sympathetic to small business.

"We must organize to elect those candidates who understand that . . . we are the creators of jobs, innovation, patents and progress," Smith asserted. "We must retire those elected officials who view small business as something to tax, regulate and harass."

The range of issues accorded top priority at the conference contrasts markedly with that produced by the 1980 White House Conference on Small Business.

Nearly all of the top 10 issues targeted in 1980 dealt with capital formation. Only one capital formation issue ranked in the top 10 this year—a proposal for legislation to establish small business participating debentures.

It is believed such legislation would encourage private investment in small firms. Investors would get a fixed rate of interest, as they would with other debt instruments, and they would participate in earnings, with their earnings shares taxable as capital gains.

No to Domestic Content

Thousands of small firms will be hurt if Congress enacts domestic content legislation for automobiles, says the federal government's small business ombudsman.

Frank S. Swain, chief counsel for advocacy at the Small Business Administration, wrote to Senate Commerce Committee chairman Bob Packwood (R-Ore.) that the legislation would harm auto dealers and small firms that service the auto industry.

Swain says that a domestic content law, which would mandate inclusion of more American-made parts in foreign autos, could result only in higher car prices and in lower sales and employment in auto-related industries.

"Small businesses are averse to seeing the United States set such a precedent," Swain wrote. "If Congress approves the domestic content legislation, there would then be strong demand for similar restrictions in other industries.

"Small manufacturers of a variety of goods rely on imported products and supplies to remain competitive," he continued, "and the higher costs associated with domestic content requirements would significantly reduce their competitiveness."

A recent Heller/Roper Small Business Barometer poll showed small business executives overwhelmingly opposing domestic content legislation.

Gains in Insurance

Competition and changing views of underwriting losses are reducing insurance costs and allowing small firms to benefit, reports an accounting firm.

Harvey D. Moskowitz, national director of accounting at Seidman & Seidman, explains that, historically, insurance companies have regarded underwriting losses as intolerable, and so premiums have been set high to avoid such losses.

These days, things are different. "Insurance companies now consider these losses the cost of obtaining investment funds," Moskowitz says, and premiums are correspondingly lower. Increased competition, caused by the entrance of new companies into the market, has also contributed to lower rates.

Savvy small business owners now ask brokers for competitive quotes from several insurers, Moskowitz says. He adds that a review of insurance needs also can reduce costs.

"Property and liability insurance coverage is costly but essential, and should be reviewed periodically," Moskowitz says. Self-insurance—whereby a business assumes a certain amount of risk—also can help reduce a company's annual insurance bill.

Companies generally should use self-insurance only for limited risks, such as automobile collisions and workers' compensation, he says. □

The Test Ahead on Spending Cuts

Business will be watching Capitol Hill closely the six weeks Congress is in session before it adjourns October 5. That much-ballyhooed down payment on the budget deficit remains incomplete, with the most important steps yet to be taken. It remains to be seen whether Congress' will to cut spending is as strong as its will to raise taxes.

So far the main accomplishment of the second session of the 98th Congress has been passage of the Deficit Reduction Act of 1984 (which includes the Tax Reform Act of 1984; see "How the 1984 Tax Act Will Affect You," page 68). It raises $4 in new taxes for each $1 in spending cuts. That leaves a long way to go before spending is cut twice as much as taxes are raised, as the White House and the congressional leadership agreed last spring.

The ostensible purpose of the down payment plan is to bring down interest rates by reducing federal borrowing in the credit markets. Most of the deficit reduction measures enacted to date, however, levy new taxes on savings and thus shrink the savings pool.

PHOTO: BRUCE HOERTEL

Majority Leader Howard Baker will put the Senate to work looking for promised savings in 10 appropriations bills.

For businesses, those taxes reduce retained earnings and, if they want to grow, increase their need to borrow—but from a smaller savings pool. By shifting borrowing from the public to the private sector, therefore, Congress has done nothing to bring down interest rates. Spending less could do that, though.

Next: Appropriations

Senate Majority Leader Howard Baker (R-Tenn.) has made passage of the 10 remaining appropriations bills his top priority. Depending on who does the counting, those bills will have to chop projected spending over the next three years by at least $55 billion and possibly by as much as $95 billion.

Political haggling between the House and Senate over the size of the increase in the Defense Department budget has made compromises on spending levels elusive. The House wants to make half of the promised spending cuts in the Pentagon budget; the Senate wants to make one third.

Already through the gate are bills setting next year's spending levels for energy and water development projects ($15.4 billion, up 6 percent), the Housing and Urban Development Department and several independent agencies ($56.5 billion, $1.9 billion more than the administration wanted)—and Congress, which voted itself 5 percent more.

... And What Else?

Spending money is not the only thing Congress has done this year or hopes to do before the election.

For business, potentially the most significant law enacted this year is one that revamps bankruptcy courts and makes them part of the federal district court system. It also creates 85 new federal judgeships.

Another new law requires federal agencies to seek competitive bids on government contracts. But, says Rep. Dan Lungren (R-Calif.), "by and large it's been a do-nothing year."

That seems to pose no problem for House Democrats, led by Speaker Thomas P. O'Neill, Jr. "We really haven't started out looking for new legislation," O'Neill says. "We want to stop the course of the administration."

Accordingly, House Democrats have tied up job-creating urban enterprise zone legislation and two anti-spending measures, one giving line-item veto authority to the President, the other a proposed constitutional amendment to limit spending and taxes.

While House Democrats hope to gain from doing nothing, House Republicans are pushing their own 19-point legislative agenda. They want votes taken on such controversial issues as monetary and regulatory reform, summer and youth jobs incentives, job retraining, higher Individual Retirement Account contributions for spouses, tuition tax credits and anticrime legislation.

As long as the Democrats control the House, though, few if any items on this list will come up for a vote. So the job of deciding what nonessential legislation has a chance of passage falls to Baker.

Campaign Help

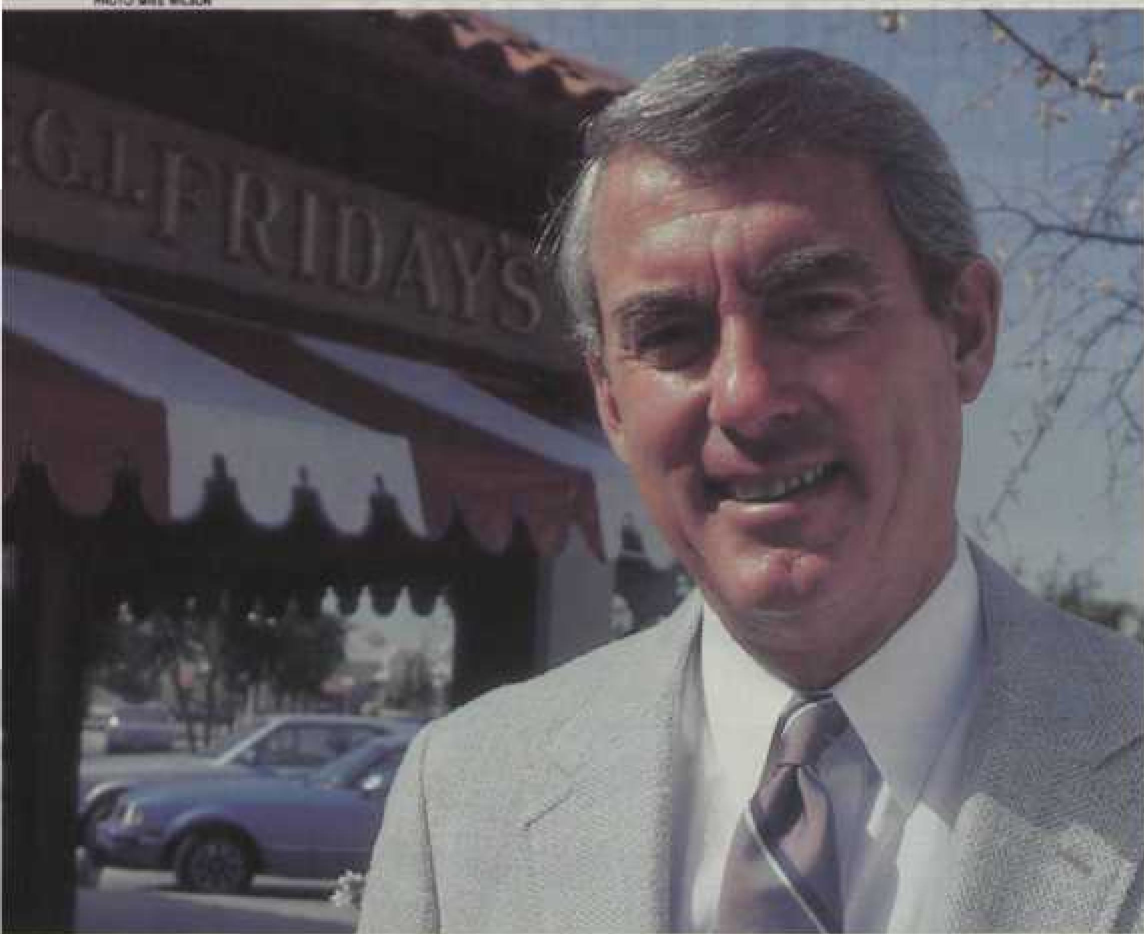
With 19 Republican seats in the Senate being contested this year, Baker is also expected to respect the wishes of members who will be affected if the Senate votes on certain issues a few weeks before the election.

What is on that list? Nobody is saying.

But the odds are that bills like the one changing cigarette health warning labels will come to a vote only with the approval of Sen. Jesse Helms (R-N.C.), who represents many tobacco farmers. A strong backer of the Reagan administration, Helms is in a tight re-election race with Gov. James Hunt (D-N.C.).

Bills of interest to business with the best chances of passage include the Export Administration Act, aimed at streamlining export licensing while curbing illegal exports of high technology goods to Communist bloc nations; banking legislation that would halt formation of so-called nonbank banks in exchange for giving banks greater ability to compete with other financial service companies; and Superfund legislation extending the operation of the hazardous waste cleanup program. □

PHOTO MIKE WILSON



Dan Scoggin turned T.G.I. Friday's restaurants around with a customer-centered marketing strategy.

Adapting to a New Era In Marketing Strategy

Today's successful business must satisfy better educated, more demanding consumers.

By Sharon Nelton

Andrew Lewis used to disdain the word "marketing." The chairman of Best Products Company, a retail giant, disliked marketing's image as "a way to *create* demand." He still says, "That is not our approach." Nevertheless, in mid-July he announced the company's first senior vice president for marketing.

Daniel R. Scoggin, president and chief executive officer of T.G.I. Friday's, the Dallas-based restaurant chain, says his marketing philosophy is simple: He believes in word-of-mouth advertising. "If the product is right," he says, "the consumer is just going to come and get it."

Michael Klein, president of Sentinel Consumer Products, Inc., of Mentor, Ohio, decided he could challenge the giants of his industry—health and beauty aids—by adding color to traditionally white products like swabs and cotton balls.

Ed Wachtel and Herb Goldsmith, principals in a New York City sportswear manufacturing firm, had done almost no advertising when they found that one of their newly introduced products, a racing-style jacket, could be a runaway best-seller with the right promotion.

These five entrepreneurs have differing perspectives on one of the most challenging and elusive aspects of business—marketing, the art and science of winning and retaining customer loyalty.

What it is, how to adapt it to particular products and services, how to make it work effectively for a business—all this is of increasing concern to business people because of marketplace changes that are altering, in many ways, how sellers communicate with buyers.

Smaller businesses are paying greater attention to the need for marketing strategies, which they once considered the province of big corporations.

Even the definition of marketing is changing. There is a lot more to it than selling. Steven W. Brown, president of the American Marketing Association and professor of marketing at Arizona State University, says that a true marketing orientation, whatever the size of the business, involves "putting ourselves very much in the shoes of the users of our products or services and trying to look at our product or service from their perspective."

Like finance, marketing can affect every facet of a business. It consists, Brown says, of all the activities "associated with the generation and retention of customers." That means determining what kinds of customers a firm wants, development of products or services, advertising, pricing, distribution and the kinds of after-sale activities a firm undertakes to make sure the product or service is doing what the company promised.

Because more and more companies are coming to recognize the importance of that approach, the marketing field is teeming with changes. They range from a new emphasis on marketing by traditional businesses to a soaring use of new techniques like telemarketing and direct mail.

Best Products is among the companies caught up in that change.

Andy Lewis, who has played a major role in the growth of Best Products into a multibillion-dollar operation, says three principles have guided the company since its founding in 1957: Giving customers the lowest possible prices on name brands, making sure products are

in stock and readily available to customers, and providing good service.

But, says Lewis, because retailing is such a fast-moving and highly competitive field, the way Best implements its policy has changed a great deal. "What worked in 1962 no longer works in 1984," he says. Once the company did no formal research, but it has now turned unabashedly to the tools of marketing to give it what Lewis calls "a more rational, focused look at the consumer and what the consumer needs."

The company itself, as well as the marketplace in which it operates, has changed dramatically since Sydney and Frances Lewis opened a catalog mail-order business based in Richmond.

People in the area began dropping in to see the merchandise they were ordering. "It quickly became obvious it was a walk-in business," says Andy Lewis.

Best had only four showrooms in 1969 when Andy left his economics teaching post at the University of Richmond and joined his parents in the company. Things began to happen fast.

In 1970, Best became the first catalog showroom company to go public, and sales jumped 44 percent, to nearly $20 million that year. In the next three years, 23 new showrooms were opened, and annual sales hit $103 million.

Best now has 196 showrooms, and sales reached $2.1 billion in 1983. Sydney Lewis retired this year, and Andy, who had been president and chief operating officer since 1976, became chairman and chief executive officer. Frances Lewis continues as executive vice president.

During the years of massive expansion, Andy Lewis says, Best gave little emphasis to any formal marketing program, but there were strong elements of a successful marketing strategy at work. One was the way the founders quickly adapted to demonstrated customer preference by going into showrooms, as opposed to mail order. Offering brand-name merchandise at lower prices was a customer pleaser from the start, and the growing number of busy, two-earner, budget-conscious couples liked the speed and convenience, as well as the prices, that Best offered.

SOME MARKETING opportunities came about almost by accident, however. When they did, the Lewis family was quick to seize them. In 1972, for example, artist friends of Sydney and Frances, who are art collectors, persuaded them to experiment with a new look for their drab, boxy stores.

The first result was the renovation of a South Richmond showroom's facade to make it appear that the brick was peeling off. The front wall of a new store, opened in Houston in 1975, appeared to be crumbling. The strange facades now fronting eight stores have been a sensation.

"Even people who didn't like them loved to bring their friends and show how ugly they were," says Andy Lewis. When the Houston store opened, business doubled at another Houston showroom for the next two months because of increased awareness of Best Products.

The arty facades were adopted "for the fun of it," Lewis says, but they also turned out to be a good marketing tool. "People are surprised that a corporation would have a sense of humor," explains Lewis. "It personalizes the company for the customers and makes them feel better about us."

Though Best may have flown almost on instinct in its first two decades, changes in its environment and its competition now necessitate a more conscious concentration on marketing. Lewis' new marketing chief, Linwood A. Lacy, formerly Best's senior vice president of merchandising, will face some major challenges.

Upscale discounters, like Bradlees, have become a major force in the retail marketplace. So have agressive specialty stores like Toys R Us. Higher-end emporiums like Bloomingdales and

PHOTO T. MICHAEL KEZA

Aggressive pricing and fashion are key to the way Michael Klein promotes Sentinel's products, which include health and beauty aids. His swabs come in seven colors.

Lord & Taylor are pursuing highly successful marketing strategies aimed at contemporary customers.

In the 1970s, Lewis points out, one city's market looked much like all the others, and decisions could be made effectively at headquarters. But now, he says, "people will try to—and need to—distinguish their marketing efforts from one place to another. Today, with the enormous increase in competition and the kinds of competitors, Sacramento no longer looks like Dallas."

Dan Scoggin of T.G.I. Friday's is another entrepreneur who has used effective marketing strategies not only to launch, but also to save, his business.

In their early years, the trendy, antique-filled eating houses known as T.G.I. Friday's drew a young clientele, including many singles, with a fun, uptempo image.

But on its way to becoming the 78-restaurant chain it is today, Friday's hit a dangerous slump in the 1970s. Scoggin wanted to know why. His managers and board members blamed the oil embargo, severe competition and the traditional pattern in which restaurants start out with high volume that then begins to fall off.

He refused to accept any of those explanations and began studying other restaurants around the country for clues. His conclusion: Declining patronage at a restaurant means the customer is not satisfied.

SCOGGIN REALIZED that Friday's had locked itself into an image of a place oriented toward singles. But the youthful customers were growing up, and consumers in general were changing. Going out to dinner, once a special event in a family's life, has become far more routine as the number of two-earner households increased rapidly.

And, because consumers were traveling more, they were acquiring more sophisticated palates. Drinking habits were changing, too, away from stronger alcoholic beverages, toward light, fruity drinks.

Determined to make Friday's viable again, Scoggin began to downplay the singles image; he even cut the decibel level of the background music. Menus are now aimed at working couples, and offer a variety wide enough—from Chinese to Mexican—to please almost any taste. Customers can fill up on appetizers for less than $3 or go all the way with a $10.95 dinner. They can even bring the kids.

To appeal to the well-traveled diner, the restaurants emphasize freshness, with all meals prepared on the premises. To keep up with changing tastes, the restaurants revise their menus every six months, dropping items that have not fared well and adding new ones.

Friday's has also shed the "cute" language and designs on its menus in favor of straightforward descriptions of food and more sophisticated graphics.

The changes have paid off. Friday's went public last December. Analysts expect its sales to be around $300 million this year, compared with $229 million in 1983. Annual volume per unit—

Seven Steps to Better Marketing

Small businesses need marketing just as much as big ones—perhaps more. A big business can survive marketing mistakes much more easily than a small one, say William A. Cohen and Marshall E. Reddick, authors of *Successful Marketing for Small Business*. Here are some pointers from marketing experts:

• Before developing a new product, find out what your market wants. Say Cohen and Reddick: "You should offer a product or service, not because you want to, but because it is something your potential customer or client wants to buy."

• If you are too small to conduct research on your own, look for studies done by others. Try the U.S. Small Business Administration, your local chamber of commerce, trade associations and trade journals, and nearby universities.

• Listen to your research. Kenneth L. Bernhardt, professor of marketing at Georgia State University, says that initial research for the ill-fated DeLorean automobile showed a large demand for a specialty sports car in the $15,000-$20,000 range. But DeLorean ignored the research, adding features that resulted in a $25,000 pricetag—and ultimate failure.

• Pay attention to your customers. "If you get lots of complaints, listen to them," says Andrew Lewis, chairman of Best Products Company. You must be tough on yourself in determining whether you are giving the customers what they want.

• Be aware that one marketing strategy will affect another. Rebecca Matthias, president of Mothers Work in Philadelphia, knew that when she began adding retail outlets to her mail order business of selling maternity wear to career women, she stood to lose some of her catalog sales. But she took a chance, figuring that if she lost all her mail order trade in a city but got four times the business in a store, it would be profitable. Her bet paid off. She found she could do eight to nine times the business with a store and retain some of the catalog sales besides.

• Monitor your environment. What is going on outside your business is as important as what is going on inside it, says American Marketing Association President Steven W. Brown. Keep tabs on the economy, government regulations and the changing tastes of consumers.

• Aim for a long-term relationship with your customer. Lena Voyles of Ashton, Md., was delighted recently when outdoor outfitters L.L. Bean sent her a refund check for one cent because she had overpaid that much on a mail order. An L.L. Bean spokesman says it was just like giving the customer change at the cash register.

If you want to shore up your marketing efforts and are looking for help, here are some resources:

• American Management Associations Extension Institute, 135 W. 50th Street, New York, N.Y. 10020, (212) 903-8040. Offers self-study courses in such topics as strategic marketing planning, pricing and direct mail; $79.95 for AMA members, $89.95 for nonmembers.

• "Fundamentals of Marketing," week-long seminars for executives with no more than three years' experience in marketing. American Management Associations, 135 W. 50th Street, New York, N.Y. 10020, (212) 586-8100; $820 for AMA members, $940 for nonmembers.

• *Principles of Marketing*, by Thomas C. Kinnear and Kenneth L. Bernhardt. A readable text covering marketing basics; $26.95. Available at some bookstores or from the College Division, Scott, Foresman & Company, 1900 E. Lake Avenue, Glenview, Ill. 60025, (312) 729-3000.

• *Successful Marketing for Small Business*, by William A. Cohen and Marshall E. Reddick. A practical guide with chapters on low-cost research, distribution strategies and selling to industry and government. Limited supplies are still available for $8.16. Publication Services Department, American Management Associations, P.O. Box 319, Saranac Lake, N.Y. 12983.

$3.4 million—is reputed to be tops in the business.

The challenge that Mike Klein of Sentinel Consumer Products faced was not rescuing a slumping business but taking a small one up against such formidable opposition as Johnson & Johnson, Chesebrough-Pond's, Scholl and Procter & Gamble.

After long service in the apparel industry (he was national sales manager for Donegal Menswear), Klein bought Sentinel 10 years ago and found a link between the two fields. He had watched styles in men's shirts change, as a strong emphasis on white gave way to pastels, bolder colors and complex patterns of checks and stripes.

He was again in an industry where white was dominant after he took over Sentinel, which made health and beauty aids. But he quickly carved out a marketing niche.

PHOTO: WAYNE SORCE

Europe Craft Imports achieved rapid growth when celebrities touted its "Members Only" sportswear. Here, actors Chris Atkins and Erik Estrada work on next spring's TV ad campaign.

Drawing on tricks he had learned in men's clothing, Klein turned out pastel pink, blue and yellow "cotton" balls (actually, rayon), and swabs with sticks in seven colors. He even added color and designs to the insoles in his footcare line, and he concentrated on packaging with contemporary graphics. "White products sell," he says, "but it is fashion and color that motivate."

He also launched an aggressive pricing strategy that put his products' prices 20 to 50 percent below those of competitors. The consumer gets a lower-priced product, he says, and "the profitability to a retailer is much, much greater."

ALTHOUGH SENTINEL's name may not be a household word yet, Klein sells to 3,000 accounts across the country, including K mart, Wal-Mart and Woolworth. He also turns out products sold under the private labels of some of the country's larger retailers. He will not specify the level of his annual sales, beyond saying that they are between $10 million and $20 million.

In recent months, he has entered the highly competitive feminine hygiene market, convinced that the design of his products and their lower prices will win them space on store shelves.

While Klein was taking on the big names of his industry, another company that started out relatively small found that big names opened marketing opportunities of a magnitude its principals had only dreamed of.

Ed Wachtel and Herb Goldsmith had been running Europe Craft Imports, Inc., in New York City for 17 years without setting the sportswear industry on fire. In 1978, they introduced a racing-style chintz jacket aimed at the young men's market. Stitched on the pocket was the label: "Members Only."

Paying celebrities to promote products is a venerable marketing tool, but Wachtel and Goldsmith found that stars like Johnny Carson and Frank Sinatra were wearing the "Members Only" jacket in prime-time television appearances without any arrangement with the company. Suddenly, the jacket had status. Europe Craft had done virtually no advertising but, in late 1979, it launched a successful co-op advertising program with major department stores in Los Angeles. By the following spring, it had added Chicago, Miami, Boston and New York.

By 1981, Wachtel says, it was time to "let consumers know this product was available nationwide." In the wake of the success of the unpaid testimonials from celebrities, they turned to the entertainment world for their promotion campaigns. They first signed Anthony Geary, star of ABC-TV's "General Hospital," who was chosen primarily for his appeal to women (Wachtel says they influence 75 percent of all menswear purchases) and to younger people, who set fads and trends.

Larry Gatlin and the Gatlin Brothers were signed in 1983 for two years to extend the "Members Only" reach to a slightly older audience while maintaining its appeal to women. Meanwhile, all the company's products were being converted to the "Members Only" label. The strategy behind the advertising was to build a base for expansion via licensing agreements. Before, Wachtel noted, "we didn't have a name anybody would pay us for."

ANNUAL SALES are now $105 million, compared with $19 million in the year they introduced the "Members Only" jacket. As a further sign of success, the company is spending $6 million on advertising this year, compared with less than $50,000 in 1979, and last year spent $400,000 protecting the "Members Only" trademark, fighting infringement and counterfeiters. (See "Waging War on Bogus Goods," page 32.)

When "Members Only" identified younger males as the principal audience for its racing jacket, it was using the "segmentation" approach that is a significant part of marketing today. Other trends: a sharp increase in marketing by service companies and professions, greater use of technology and increasing sophistication among consumers.

The need to segment markets arose from changes in the population, market experts say. They point to the increase in two-worker households, the proliferation of singles and the rising age of the population.

Technology has made segmentation possible. Through cable television and specialized magazines, advertisers can reach such specific groups as sports-oriented males and culture buffs. The emergence of personal computers has meant that more managers and marketing executives have access to more marketing data than ever before.

While Best Products once made its marketing decisions at headquarters, information can now be gathered and organized by computer at the local level, and decisions made there. "The computer is changing the way you do marketing," says Andy Lewis.

ONE COMPANY that has been perfecting segmentation in the last six years is Anheuser-Busch, Inc. According to President Dennis P. Long, the brewing company now looks at each geographic area and assesses the firm's strengths and weaknesses in terms of the demographics there. Does it need a program that would appeal to blacks or Hispanics? Does the company need to strengthen its reach in the young adult market?

Once a segment has been identified, the company addresses it with a "total marketing" program using all possible marketing tools—electronic and print advertising, merchandising (such as point-of-sale materials), in-store promotions, publicity and even distribution. ("We have the finest wholesale chain in the business," says Long.)

Following such a procedure, Anheuser-Busch—or any company—can cover the entire market, segment by segment.

Anheuser-Busch recently introduced LA beer (for low alcohol), designed for the segment of the population interested in moderation and concerned about alcohol abuse. The beer was tested first in 16 marketing coverage areas, so that all demographic variables could be assessed and to be sure that the segment Anheuser-Busch had identified would buy in sufficient volume.

So far, LA—which has about half the alcohol content of regular beer—is appealing most to 25-to-40-year-olds. Long says young adults (aged 21-25) have not yet seen the merit of moderation, which "tells us we have a weakness in our marketing plan."

Segmentation is also more prevalent as a business-to-business marketing strategy, notes Kenneth L. Bernhardt, professor of marketing at Georgia State University and visiting research professor at the Marketing Science Institute in Boston. Instead of—or in addition to—dividing sales according to geographic regions, a company like International Business Machines might assign a national sales account management team to each of its biggest customers. If IBM assigns such a team to General Electric, for example, that team will understand all the needs of all the GE divisions.

However, it was neither the need for segmentation nor advanced technology that created a whole new environment for marketing professional services. It was the U.S. Supreme Court. In 1977, the Court ruled that restrictions imposed by professionals' groups on members—physicians, dentists, lawyers—inhibited the flow of commercial information and kept the public ignorant of types of services available and the fees for them. The Court decision striking down the prohibitions on advertising by professionals led to the establishment of chains of legal clinics and dental centers that advertised heavily. The operators, many of them franchisees, added an additional marketing touch with evening and Saturday hours that attracted working people.

Oddly enough, packaging design firms like Gerstman & Meyers in New York City still do not advertise. Even though packaging is a basic marketing tool, the Package Designers Council stipulates that members cannot advertise, according to Herb Meyers, one of the firm's principals.

Given the trends, however, Meyers thinks it will not be long before packaging designers will advertise, too. Meanwhile, the $3.5 million-a-year firm, whose clients include Heinz, Black & Decker and Xerox, depends on the quality of its work to retain existing customers and generate the referrals it needs to get new ones.

This is the age of "the conscious consumer," warns marketing consultant Faith Popcorn. Marketers must offer customers a solid reason for buying, she says.

MANY BUSINESSES are finding it tougher to keep up with today's more intelligent and more demanding consumer. Bernhardt says there has been "an incredible increase" in the educational level of consumers. And, he notes, rising incomes give people more choices and greater expectations in making purchases.

Faith Popcorn, president of BrainReserve, Inc., a New York advertising and marketing consulting firm, calls this the age of "the conscious consumer" concerned about quality, service, safety and health factors, as well as price. He or she is willing to spend time to learn about a product before buying, and is not afraid to hear the truth, even if it is unpleasant. (An example, Popcorn says, is this warning: "If you don't floss your teeth, you'll lose them.")

Marketers are going to have to give consumers real evidence of the quality of a product and other solid reasons for buying, Popcorn says. "Clever catch words aren't enough," she emphasizes. "You have to give some real value."

And it is no longer just a matter of building a better mousetrap, marketing experts are telling businesses.

Some of those experts like to tell the story of the engineers who came up with a superb new mousetrap, so well constructed it would last a decade. But the world did not beat a path to their door. Hardly anybody did. If the engineers had done some market research, they would have learned that consumers do not want a mousetrap that can be used repeatedly. They want one they can throw away, complete with mouse.

Businesses that learn the lesson in that story will have made major strides toward an appreciation of the demands of the contemporary world of marketing.□

To order reprints of this and following article, see page 65.

Piercing the Smoke Screen

By Judith Langer

SITTING informally around a table, a group of 10 men talked disparagingly about cigars. They referred to themselves as "wedding and bar mitzvah" smokers, who lit up cigars on rare, special occasions. They mocked what they considered the macho, tycoon image cigar smokers tried to project.

But when cigars were passed around the table for them to smoke, they lit up with a flourish, sat back expansively, gestured with their cigars and, in general, appeared to be adopting the very image they had been mocking moments earlier.

This group was taking part in a research project being conducted for a cigar manufacturer. The researchers observed the smokers through glass mirrored on the group's side. Comments were taped for later analysis.

Among other things, the researchers concluded that some occasional cigar smokers were actually pleased to be identified with the stereotypical image of the regular smoker, and that the cigar maker could base a marketing strategy on that finding.

This particular marketing study involved qualitative, as opposed to quantitative, research. The difference is important to any company needing information on the most effective way to present its products or services to the buying public.

Quantitative research counts how many people do this or that or would do this or that under specified circumstances, and it reports the outcome as statistics. Public opinion polls are a familiar example of this approach.

That type of research could readily provide the maker of a new cosmetic product, for example, with an estimate of how many women out of a total universe of potential customers had or would purchase the item, and it could describe the average buyer's age, income, educational background and other demographic characteristics.

Such studies are useful in measuring the size of a potential market but do not help the manufacturer understand customers as people. If a marketing strategy based on quantitative research is unsuccessful, the statistics may not help to identify the reasons.

Qualitative research is designed to help manufacturers and advertisers get beyond the numbers to the deeper factors that may cause a person to buy or reject a specific product. Normally hidden beliefs, emotions, frustrations, prejudices and attitudes are among those factors.

A wide variety of disciplines is represented among qualitative researchers.

Market researchers know a cigar is more than a smoke. Some men like its macho aura. Puffing above: actor Carroll O'Connor.

Psychology, sociology, political science and English are a few of them. These researchers are chosen for their ability to listen, analyze and synthesize.

They help a company learn the why and how of consumer behavior—why certain types of advertising work and others don't, why sales are or are not meeting goals, how customers view the company's image and how the particular product or service fits into customers' lives. The objectives are to discover what motivates them, what makes them change, what causes people to act with a blend of reason and emotion.

A primary tool used by qualitative researchers is a focus group—the cigar smokers were one—in which 8 to 10 selected individuals meet for conversation with a researcher-moderator. The typical project will consist of four to eight focus group sessions in different markets.

Those invited to participate will be told the purpose of the session: to evaluate some new soft-drink flavors or to give their reactions to a proposed advertising campaign for a new line of sportswear. But the research team observing from out of sight is actually concerned with human behavior.

Because people seldom want to admit to themselves, much less to a group of strangers, why they feel deeply about something, the researchers are looking for clues. A grimace, a tone of voice, a gesture might provide insights different from those that would be gained in a statistical analysis or on-the-street interviews.

Information elicited from focus groups can often lead to major changes in marketing strategy. A research project on household cleaners, for example, would have produced numbers on how many potential new customers were in the marketplace. But qualitative research through a focus group turned up the information that many women used toothbrushes to get the cleaner between bathroom tiles, and the manufacturer began considering putting a brush top on containers of the product.

In such cases, creative listening can stimulate ideas for new products and services whose actual sales potential can then be tested through quantitative research. And sometimes the reverse is true—results of a quantitative survey can point up a need for qualitative research.

In one such case, a group of brand-name manufacturers found that customers expressed as much loyalty as ever to their products, even though sales were declining.

Focus group interviews showed that, despite loyalty, customers pinched by the recession were seeking bargains in off-brand or generic products. The manufacturers were able to weigh such alternatives as price cuts and campaigns praising the quality of the brand-name products or even criticizing generics.

Qualitative researchers want to find out what motivates people, what makes them change. And, because businesses must plan well into the future, those researchers must determine, as best they can, not only what people feel today but also what they might feel for many tomorrows to come. □

JUDITH LANGER *is president of a New York City market research firm and publisher of research studies analyzing changes in consumer behavior and attitudes.*

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WASH/E/2

If this customer were to sexually harass this waitress, her employer could be fined for failing to intervene.

How the EEOC Is Reaching Out To Employers

Business is getting a better idea of what to do to stay out of trouble under the antidiscrimination laws.

By Tony Mauro

THE QUESTION from an employer in an audience of business people broaches a touchy subject: "What am I supposed to do about sexual harassment at my company?"

The answer, from an Equal Employment Opportunity Commission official at the lectern, is simple and direct.

"Prevention is the best tool," says Houston regional EEOC director Harriet Ehrlich. "Raise the subject with your employes without waiting for it to happen. Demonstrate your strong disapproval and develop ways to handle complaints and hand out sanctions. It's a controllable situation. You don't let employes walk out with typewriters, and you can control this, too."

In this Houston conference room, officials of the EEOC and local business people, often adversaries in the past, are sitting down together to talk about how employers can stay out of trouble. The same thing is happening in other cities.

Starting in six cities last fall, the commission has been operating a "voluntary assistance program." It has invited officials of small and medium-sized businesses for daylong seminars aimed at acquainting them with requirements they must meet under the age, sex and racial discrimination laws the commission enforces. The business people go over case studies that shed light on employers' obligations. They are given kits of reference materials to take back to the office.

Hottest topic at the sessions, commission participants agree, has been sexual harassment, barred by Title VII of the Civil Rights Act of 1964. An increasing percentage of the commission's workload comes from complaints of sexual harassment.

AT THE SESSIONS, EEOC officials stress that employers are responsible for supervisors' actions. "If you see it going on or know that it is going on, or your supervisor sees it and does nothing about it, you can be held responsible," Seattle regional director Donald Muse told one audience.

But what, asks a businessman in Houston, is the employer's responsibility if the people doing the harassing are customers, as in a bar or restaurant?

"You don't let customers break dishes," Ehrlich replied, "so you don't let customers come in and break the law this way, either." Courts have fined restaurant owners for failing to stop harassment of waitresses, she said.

How are we protected if an employe falsely accuses us of sexual harassment? another participant asked.

"We realize that it's as traumatic to be unjustly accused as it is to be harassed," Ehrlich says. "We look for some way to substantiate each charge to make sure we are being fair."

EEOC will not pursue a sexual harassment case solely on the basis of an employe's complaint, she says. The person bringing the complaint will be asked to produce witnesses to the incident (or to remarks made by the employer about it) or other persons who have suffered the same kind of harassment.

"These incidents are often unwitnessed," Ehrlich says, "but in many cases the same thing has happened to others."

Another topic employers ask about at the sessions is termination—how to fire an incompetent employe who happens to be a minority member.

"I tell them they can be as tough as they want to be, but they must be consistent," says Ehrlich. "With proper

TONY MAURO *is the Supreme Court reporter for Gannett News Service.*

documentation and a consistent policy, they can fire people."

Such plain talk has drawn large crowds to the assistance program sessions. In Seattle, director Muse expected an audience of 40 to 50, but more than 400 registered and showed up. "It breaks down the barriers," says Muse. "They go away with the name of a person they can call if they have a question."

EMPLOYERS WHO HAVE attended agree that the meetings are helpful. "This type of thing is long overdue," says Dan Wright, president of United Security Services of Tacoma, Wash., a 150-employe security guard firm. "I gained some knowledge, and it will be a little easier to face EEOC people again. I have felt, as others in business do, that certain individuals in the EEOC have a tendency to take the side of the complainant and automatically look at the employer as the bad guy."

Merlene Kelly, personnel administrator for Todd Shipyards of Seattle, who was at the same session, says, "It's worthwhile for anyone in business to attend. Things keep changing in this area, and we came away with materials we can put our hands on when we need them."

Success of sessions like the ones in Seattle and Houston caused the commission to schedule more this spring. Plans are to hold them nationwide, starting next fall, through the commission's 22 district offices.

"The reaction we've been getting is, 'It's great. Why didn't you do this before?' " says Leonora Guarraia, director of special projects for the commission. "The only negative comment we got was that one day might not be long enough."

In a sense, the new program symbolizes the commission's more settled sense of its place as an enforcement agency in an administration that seeks not to antagonize the business community.

The commission foundered during the first year of the Reagan administration. No permanent replacement was named for the aggressive Carter administration chairwoman, Eleanor Holmes Norton.

In May, 1982, Clarence Thomas, a black Republican lawyer from Savannah, took over as permanent chairman. Thomas, 35, has since walked a delicate line between the voluntary action preferred by the Reagan administration and the stringent enforcement advocated by the civil rights community.

On the one hand, he states flatly, "Equal employment opportunity is the law, and it will be enforced." He advocates affirmative action programs as a remedy for job discrimination in some cases.

At the same time, Thomas speaks approvingly of the voluntary assistance program for business. "Employers have a right to this type of information," he says. "The big companies out there have the information and the staff to handle this. It is the smaller and medium-sized employer that has not had that opportunity before."

Gerard Pinkston, Jr., who monitors the EEOC for Catholic University Law School's center for national policy review, says, "Thomas has done a good job of maintaining equal employment opportunity policies that existed before. Our main concern has been the commission's litigation policy."

EEOC statistics show that fewer than 200 lawsuits were initiated against employers by the commission last year, as opposed to close to 400 filed in the last year of the Carter administration.

"Everyone wants business to comply voluntarily, so a program like this is good," says Pinkston. "But if it is to be effective, companies need to believe that you will do something to them if they don't comply."

Commission members reply that they are pursuing enforcement aggressively with both litigation and other methods of resolving disputes. They add that the EEOC continues to run programs aimed at informing employes about their rights.

"This is still very much an enforcement agency," says Guarraia. "It's a balanced approach."

LOS ANGELES ATTORNEY William Emer, who represents management in employment discrimination cases, also notes that the number of complaints received by the commission has increased, not decreased.

"Though the White House may have turned its attention from equal employment enforcement, employers should have a heightened awareness of how their potential liabilities have increased both in kind and in number," says Emer.

That is where the voluntary assistance program has come in.

The program was designed, Guarraia says, to respond to what she calls "a lot of misunderstanding that still exists about the EEOC and what it's all about." District EEOC offices, she says, still get calls from employers who ask, "How many blacks do I have to hire?" (The commission's answer to that question is that racial quotas or affirmative action programs are a court-ordered remedy imposed only for past discrimination.)

Company officials who want to attend a session should contact a regional office of EEOC, Guarraia says. She has only one caveat. Participants in the seminar are asked not to seek specific information about their own employment predicaments. By the same token, EEOC officials will not ask for possibly incriminating information about them.

"This is separate from our enforcement role," insists Guarraia. "We don't want participation in this program either to trigger enforcement or to protect anyone from it. We don't want us or the employer to get into trouble." □

Leonora Guarraia: The EEOC is still an enforcement agency.

Stirring Up a Yen for the Yen

PHOTO: DAVID WOODDELL

Thanks to a new accord, the value of Japan's currency should rise, American officials say.

JAPAN NOW PAYS in U.S. dollars for the Brazilian iron ore and Australian coal it uses to make steel. Mexico, Indonesia and the Persian Gulf countries also demand dollars for the crude oil they send to Japan.

Those transactions represent a great irony on the world trade scene—the extent to which the currency of the free world's No. 2 economic superpower is shunned by other nations.

Japan's currency figures in less than 5 percent of world trade. Sellers want strong dollars, not weak yen.

But a strong dollar and a weak yen mean that Japanese imports can undercut domestic products in this country, and U.S. exports to Japan suffer from a competitive price disadvantage there.

The value of currency, like that of a commodity, is set by supply and demand. Foreign investors have been buying dollars heavily to lend in the United States at the relatively high interest rates prevailing here. Because the Federal Reserve Board is keeping a check on the money supply, the price that must be paid in foreign currency for U.S. dollars keeps going up.

Japan, on the other hand, has long pursued policies that have kept down the demand for, and value of, the yen. Those policies discourage use of the yen in international financial markets, keep foreign financial institutions out of Japan's capital markets and keep interest rates low, thereby discouraging foreign lenders.

The low value of the yen has been felt particularly by the U.S. auto, steel and electronics industries, which have lost significant sales to Japanese imports.

As a result, the U.S. government launched a major effort to win Japan's agreement to steps that would increase the value of the yen in world markets. After a long series of preliminary talks and intensive meetings over four months, Treasury Secretary Donald Regan announced an agreement that, he said, would mean a Japanese financial role "appropriate to the free world's second largest economy."

Key provisions of the agreement are designed to:

- Increase the demand for yen by easing restrictions on yen-denominated transactions outside Japan.
- Provide access to Japanese financial markets by U.S. borrowers.
- Permit foreign financial institutions to operate in Japan on near-equal footing with domestic institutions.
- Deregulate interest rates in Japan and make other changes to bring market forces into what has been a controlled arena.

Will the agreement achieve its goals?

Beryl Sprinkel, Treasury under secretary for monetary affairs and chief American negotiator on the agreement, says, "Over time, I do expect the yen to improve versus the dollar, and the result will be very beneficial to our export industry in terms of employment and profits."

MAKOTO UTSUMI, a minister at the Japanese Embassy in Washington who helped negotiate the accord, says, "Free market forces will better reflect the yen-dollar exchange rate."

Sprinkel says that U.S. manufacturers competing against Japanese producers will reap benefits from full implementation of the accord, along with financial and other service businesses.

James Collins, executive vice president of the American Iron and Steel Institute, says, "We think the yen will strengthen considerably. That will increase the Japanese cost of producing steel."

Richard E. Cropp, executive director of the American Chamber of Commerce in Japan, predicts that the yen will eventually become "a world-class currency," to the benefit of U.S. exporters.

But Cropp and other experts emphasize that the accord is not an overnight cure. Cropp says the yen could even get weaker in the short run as the supply increases in world markets. Sprinkel declares, "This is not a quick fix." Although he says the accord will have an impact on the yen "over time," he will not speculate on how much or when.

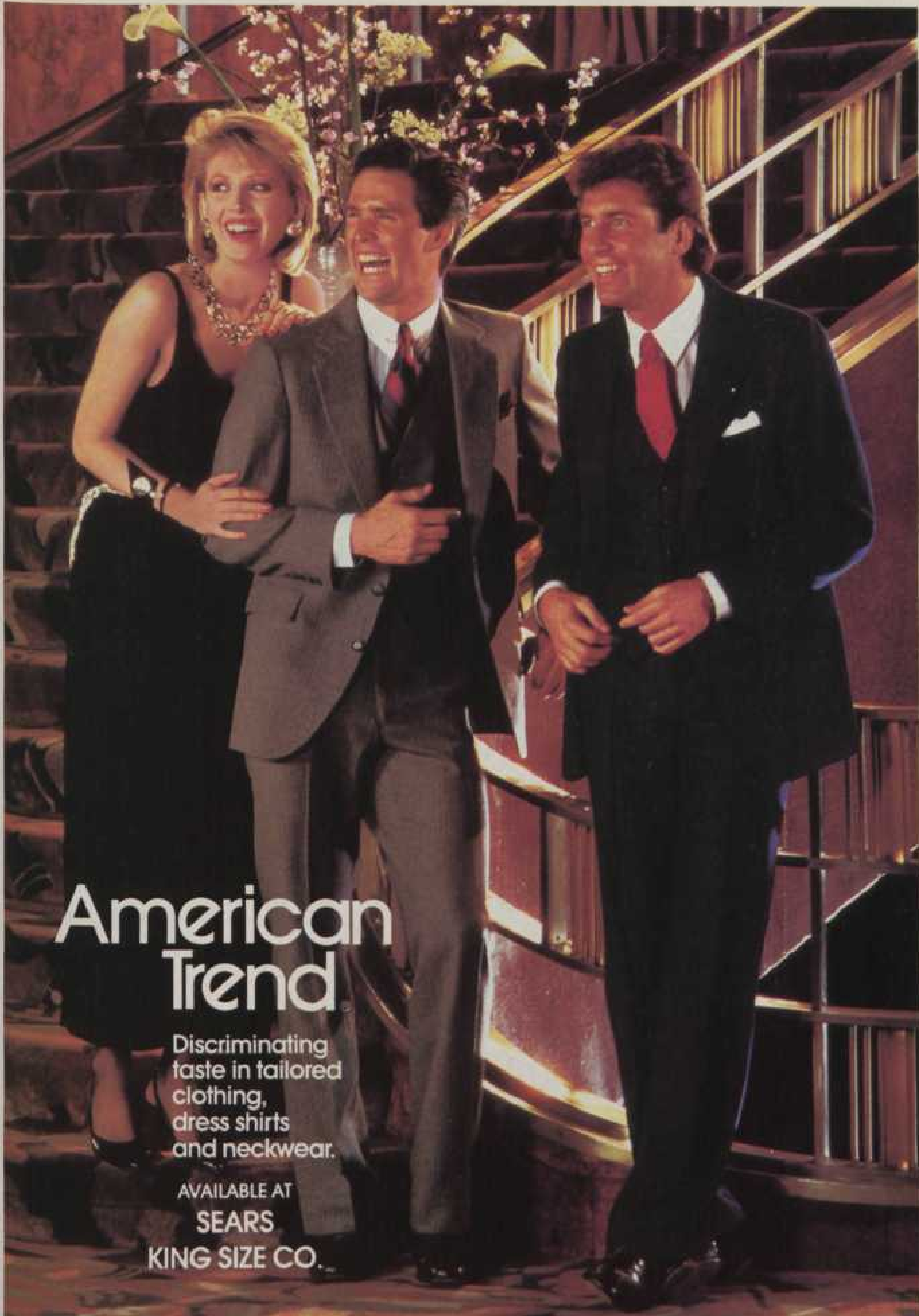
Rod Gilbert, a vice president and the Japan area manager at Manufacturers Hanover Bank in New York, says, "There is a tremendous potential for U.S. commercial banking activities in Japan."

But whether that business is profitable depends on the treatment of withholding tax on interest paid by Japanese companies, he adds. That issue was not resolved in the agreement.

Even though the emphasis in the announcement of the accord was on actions expected of Japan, the United States committed itself to halting the worldwide unitary tax system that 11 states now use. Under that system, a state uses a company's global operations, rather than its activities within the state's borders, as the basis for taxation. Japanese companies have complained about such taxes in this country, and the Reagan administration is seeking a solution within its philosophy of allowing states to make their own decisions to the greatest extent possible.

Further meetings are planned, to evaluate the extent to which each country is living up to its commitments under the accord. □

—Peter A. Holmes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WASH/E/6

Smoothing The Way To Retirement

Helping employes plan for the future can make them better workers now.

ONE WAY to improve a company's present, managers are finding out, is to give workers a better idea of how to prepare for the future.

An increasing number of managers are offering to help employes plan for retirement 5, 10 or even 15 years before the employes expect to leave the company. The practice has spread to more than 1,000 businesses of all sizes, though most of them are large.

"We have found that the financial counseling in particular meets a real need of our employes," says William F. Hughes of Grumman Aerospace Corporation in Bethpage, N.Y. "It helps morale and improves productivity, even for younger employes."

Grumman has held retirement seminars since 1979. More than 2,000 employes, most accompanied by spouses, have attended. "Retirement planning should be a major concern years before an individual reaches retirement age," says Hughes, Grumman's personnel communications manager.

Grumman used to wait until an employe's last year of work to offer counseling. Now a worker who has turned 50—or 55 or 60 if he has not been contacted before—is invited to attend a group seminar on retirement. The program was designed in collaboration with a human resources consulting firm, Benefacts, Inc.

Each group, which averages 200 persons, gathers to hear experts talk about social aspects of retiring. Each person is given work sheets and audio cassettes to use at home. The materials cover self-analysis, company benefits, budgeting, investing and taxes, estate planning, record keeping and health.

A week later, the group reassembles with completed work sheets. Experts discuss financial planning, legal questions, Social Security and taxes, and answer participants' questions.

Hughes says Grumman, with 20,000 employes at Bethpage and another 8,000 at other sites, has the lowest "quit rate" in the aircraft industry—2.8 percent a year—and he calls retirement planning an important part of the benefits package that helps keep employes satisfied.

Programs for business use—some like Grumman's, some structured differently—have been developed by several organizations. Action for Independent Maturity has supplied programs to 750 companies. Others in the field are the National Council on the Aging, the American Association of Retired Persons and Retirement Advisers.

The National Council on the Aging, a nonprofit group in Washington, will provide an employer with audiovisual materials for 10 seminar sessions totaling 20 to 24 hours. There also are training materials for group leaders and individual kits for participants, including reading materials, study exercises and record-keeping forms.

Costs are $1,000 for the slides, tapes, wall charts and other seminar presentation materials and $50 per person for the participants' kits ($7.50 extra for materials for spouses). The council will also supervise training of a company's seminar leaders. It charges $550 to train one person and $400 for each additional person at a 4½-day school.

Among several hundred companies that have used the program are Atlantic Richfield, ALCOA, Equitable Life Insurance, Standard Oil of Ohio and Travelers Insurance.

AT TRAVELERS, which has 1,000 employes at its Hartford headquarters and 30,000 nationwide, about 1,500 persons have attended seminars.

The company has begun a companion program called "Corporation for Older Americans," for retired workers who want part-time employment. Run by two retirees, the program operates a job bank that now supplies about half of Travelers' temporary daily help. The jobs are mostly clerical, but several former company officers have worked part-time on special projects.

At Grumman, whose program was one of the earliest, retirement planning has become so popular that as soon as the company has offered the program to all older workers it will be offered to employes aged 40 to 50.

"The earlier you start," says Grumman's Hughes, "the more useful the program is, especially the financial part. With our help, people are looking ahead and starting to make realistic decisions about their futures." □

—Harry Bacas

Waging War On Bogus Goods

Counterfeit products cost legitimate business billions. What's the answer?

By Bob Gatty

PHOTOS: T. MICHAEL KEZA

CARTONS of imported merchandise are stacked high in the airport warehouse near Baltimore as the special Customs Service fraud investigations team walks in.

Inspector Joseph McCardell takes out a pocket knife and slits open a carton of designer purses. He hands one to Joan Shindledecker, a Customs Service import specialist, who carefully looks it over.

Papers with the shipment indicate the purses were bought for $8 each. Shindledecker and other team members know they often retail for more than $150. The shipment is detained, and the importer notified. He is told to provide documentation showing the goods are not undervalued for tariff purposes or that they are not counterfeit. Otherwise, they will be seized in 30 days.

Counterfeit. The federal government's International Trade Commission estimates U.S. businesses lose as much as $8 billion in sales annually to bogus merchandise entering this country from at least 44 nations. That estimate, contend lawmakers and concerned business people alike, is conservative.

Some 131,000 jobs were lost in 1982

A Customs Service agent inspects an imported computer at Baltimore. Makers of computer software are particularly vulnerable to product counterfeiting.

Calvin White of the Customs Service: When "we know we have a problem" with imported phony products, "you can be sure every box is going to be checked."

as a result of foreign counterfeiting, the ITC says. However, House Energy and Commerce Committee Chairman John Dingell (D-Mich.) says the "sleazy importers" of counterfeit goods are costing far more in employment than that. His Oversight and Investigations Subcommittee has issued a report estimating that 210,000 jobs are annually lost to fake auto parts alone.

IN ADDITION, health and safety is often involved, and reputations of major corporations are jeopardized, Dingell says.

The subcommittee says counterfeits were found among parts to be used in a test of the U.S. space shuttle in 1976 and again in parts intended for Army missile systems. Several commercial helicopters have crashed, causing injuries and death, after counterfeit parts failed, the report says.

Bogus brake shoes "that provide little or no braking power" are being marketed, Dingell's panel reports, endangering motorists' lives, and heart pumps and medicines have been counterfeited, too.

Commercial counterfeiting is not new, says James L. Bikoff, president of the International Anticounterfeiting Coalition, an industry group formed to lobby for tougher laws. "What is new," he says, "is the vastly expanded scope of the problem."

Bikoff notes that counterfeiting now covers a wide range of products, including apparel, jewelry, sporting goods, records and tapes, agricultural chemicals, auto parts, plumbing supplies, electrical components, aircraft parts, and computers and software.

Perhaps no companies are more vulnerable to counterfeiters than makers of computer software, which Apple Computer President John Sculley calls "the lifeblood of today's computer industry."

He says the software industry's economic viability "has been threatened by an onslaught of pirates who, for pennies, make copies of the software others have diligently worked for months or years to develop." If left unchecked, such counterfeiting "will have devastating consequences on the U.S. computer industry," he says.

Shindledecker, her fellow import specialist William Patterson and Senior Special Agent Mike Dolphin are part of a special customs team assigned to inspect goods coming into Baltimore by air or sea. The group has 40 counterparts across the country.

The teams were established last August as part of Operation Tripwire, a drive against all types of fraudulent import practices, including duty and quota violations, which the Customs Service says are costing the U.S. economy $18 billion annually.

"Our business is fraud, and counterfeiting is a big part of that," says Calvin White, who heads Operation Tripwire from Washington. "We are concentrating a tremendous amount of expertise on it."

Some manufacturers provide training or detailed information about their products to help customs investigators recognize fakes. However, investigators in Baltimore say more information is needed to help them identify other companies' products.

White says investigations start with leads developed through the Customs Service's domestic and foreign offices. "We examine merchandise smartly," he says. "In areas where we know we have a problem, you can be sure every box is going to be checked."

Sen. John Danforth (R-Mo.), who calls merchandise counterfeiting "thievery," is pressing for legislation that would pressure foreign governments to act against counterfeiting within their borders. He has introduced a measure—strongly supported by the U.S. Chamber of Commerce—that would make such action a condition for the granting of preferential duty treatment on exports to the United States.

The measure, approved by the Senate Finance Committee, is included in legislation renewing the Generalized System of Preferences, begun in 1974 to assist developing nations.

SAYS DANFORTH: "Many of the countries with the worst records for counterfeiting are among the principal beneficiaries of the GSP program. No country that benefits from duty-free access to the U.S. market for many of its exports should be allowed to overlook the theft of the products and profits of American ingenuity, research and marketing."

Dingell's House subcommittee identifies Taiwan, South Korea, Hong Kong, Singapore, Thailand, the Philippines, Indonesia, Brazil, Colombia, Mexico and Nigeria as major sources of commercial counterfeiting.

Legislation imposing criminal sanctions for manufacture, sale or distribution of counterfeit merchandise in the United States is also pending in Congress. A measure sponsored by Sen. Charles McC. Mathias (R-Md.) has won Senate Judiciary Committee approval.

The Mathias bill and a similar measure sponsored by House Judiciary Committee Chairman Peter W. Rodino

PHOTOS: DAVID WOODDELL

Bogus auto parts, like the oil filter (made from a Chinese asparagus can) and gas cap on the left and the shock absorber (with fake warranty) in the top box, threaten the reputations of the manufacturers of the genuine products.

Details can sometimes provide clues. Note the emblems on the fake shirt at left, and on the legitimate one. But the tags on the phony jeans at left could appear more reassuring than the label on the real thing at right.

(D-N.J.) were revised after objections were raised by price-cutting retailers, including K mart, J.C. Penney and Sears, and their trade associations.

The Senate version now requires that to be found guilty of trafficking in counterfeit goods, a person must be shown to have known of the counterfeiting.

Critics argue that such a provision will make it practically impossible to prove a case, but proponents deny this and say that earlier versions could have resulted in prosecution of persons who did not realize that products they were distributing or selling were bogus.

The Mark of a Worried Manufacturer

A manufacturer that hopes the U.S. Customs Service will seize counterfeit versions of its products as they enter this country is hoping in vain, unless it has taken an important step. The Customs Service can only pursue cases involving trademarks that have been registered with the agency, and investigators say many firms have not registered theirs.

"No registration, no enforcement, because technically we don't know," says Mike Dolphin, senior special agent in the Customs Service Baltimore office. "If a company is not registered, we don't worry because apparently they don't."

Customs investigators refer to the trademark registration list before taking any action against a possible counterfeiter. Dolphin and other members of the Baltimore fraud investigation unit cite several instances where suspect goods came in, but there was no registration.

ANOTHER CONCERN of some businesses was a provision making it easier for courts to have suspect goods seized without requiring that the distributor be notified. That was amended to restrict seizures without notification to cases where a federal court finds that a lesser order, such as a temporary restraining order to halt sales pending a hearing, might result in the goods or distributor disappearing.

Many manufacturers hire trademark and patent attorneys who use private detectives to track down counterfeiting of the manufacturers' products. Once evidence is uncovered, it can be taken to a judge, who may order the goods seized without notification of the distributor.

Proponents of the Mathias provision argued that judges are often reluctant to issue such orders, so possible violators are notified and the evidence is gone when investigators and U.S. marshals show up.

One California private detective, William Ellis, told Dingell's subcommittee that current penalties, which do not include jail, are insufficient to deter counterfeiters from operating in the United States. Ellis, who says he has handled 1,100 counterfeit cases over the past four years and participated in seizures of millions of dollars worth of goods, said the practice is "rampant," particularly on the West Coast.

"Nearly all the products we have seized were foreign made," he testified. "Many were imported as complete counterfeits. Others had infringing logos and labels applied after entry. Often a 'Made in Taiwan' label is removed and a 'Made in U.S.A.' label is substituted."

One counterfeiter imported 50,000 shirts a month from Hong Kong at a cost of $4 a shirt, Ellis said, while the wholesale cost of the legitimate shirt in the United States was about $17. Profits were staggering—and the American manufacturer lost $1 million a month until the counterfeit operator was stopped, Ellis said.

PRESENT LAW does not make selling counterfeit goods a criminal offense unless fraud or conspiracy can be proved, and even then the culprits can only be fined. The Mathias bill provides penalties of up to five years in prison and $250,000 in fines for individuals and up to $1 million in fines for corporations that traffic in goods and services knowing them to be counterfeit. In addition, it authorizes a registered trademark's owner to bring a civil suit for treble damages against violators. The House bill contains no such civil remedy.

Retail firms that have fought for changes in the Mathias bill emphasize that they hold no brief for merchandise counterfeiting, though they question that the problem is as large as it is sometimes made out to be.

Edward T. Borda, president of the Association of General Merchandise Chains, says association members are harmed by the sale of counterfeit goods, just as manufacturers are.

Legitimate businesses suffer when consumers return defective merchandise to the retailer for replacement or repair and the retailer is told by the manufacturer that someone else made the bad goods. Both retailer and manufacturer incur the customer's wrath and spend time and money on a wrong that is not their fault.

A problem for many U.S. manufacturers is the sale of phony goods carrying their brand names, produced abroad, to a third country such as Japan or Britain.

Frederic Brooks, chairman of MacGregor Sporting Goods, in East Rutherford, N.J., says an unauthorized manufacturer can easily duplicate a basketball, running shoe or baseball glove.

"Maybe employes of your authorized manufacturer abroad go to work at a factory down the street or even form a new company," he says. "They make a product and put your name on it and ship it to a third country for sale."

Domestic sale of counterfeit merchandise depends on an outlet to the consumer. The International Trade Commission blames street vendors and—without naming specific companies—some discounters as major sources of such goods in this country.

How should retailers avoid becoming caught up in the counterfeit game?

EXPERTS SAY IT IS often difficult to distinguish between a real product and a fake. Bogus designer clothing can be spotted through erratic stitching or the use of the wrong kind of button or snap. In one case, fake Members Only jackets had the inside pocket double-stitched and the outside pocket single-stitched. In the real thing, the reverse is true.

But the best test is common sense.

Says the Customs Service's White: "If the retailer is dealing with a reputable distributor, he should be O.K. But if somebody says there is no problem in getting a product the retailer knows there's a tight quota on, he ought to be suspicious."

Adds Sen. Mathias: "If a bargain looks too good ... then there usually is going to be a problem connected with it."

At the airport in Baltimore, the customs fraud team is inspecting a shipment of computers. "These look like the real thing," says Special Agent Dolphin. "But you never know. We'd better have them tested." □

PHOTO: KEVIN HORAN

Agriculture At The Crossroads

1985 could see a historic turnaround in farm policies set in the New Deal.

By Henry Eason

GORDON JAMESON has survived droughts and insect pests and has managed to make a go of it with the soybeans, corn and hogs he raises on his northern Illinois farm—in spite of all the "help" he has gotten from Washington.

To Jameson, the federal government means high interest rates, inflated prices that drive up his production costs, food export embargoes, trade conflicts that invite retaliation by foreign customers and encourage foreign competitors, deficits that drive up the dollar's value and thus the prices of his exports—and red tape.

He would be happy if the government did him no more favors.

The federal government, he says, should "untie the farmers' hands from these inefficient programs and turn them loose to produce for the market." But, he adds, shaking his head, "politicians will not let the market system work."

American agriculture has become a troubling economic paradox. Last year, the government spent a record $51 billion in direct and indirect subsidies of the farming sector, an average of $22,173 for each of the nation's 2.3 million farms. And yet farmers are still in perilous financial straits.

The farmers' difficulties have rippled through the economy's largest sector: the food and fiber chain, accounting for over 20 percent of the gross national product and about 22 million workers, employed by fertilizer companies, equipment manufacturers, trucking and shipping firms, grocery stores and food processors, and in hundreds of other agriculture-related industries.

One approach to solving the farm crisis would make the system more market-oriented. Another, known as the public utility approach, would bring even greater government involvement in protecting the farmer's income. Both sides are already massing for conflict next year, when Congress, as it does every four years, takes up a comprehensive farm bill.

Today, only half of American agricultural output is produced without a dominant federal role. Producers of livestock, poultry, soybeans and many

Government programs have grown up like weeds to choke American farming, says Gordon Jameson, who, with sons Stephen (left) and David, raises soybeans, hogs and corn near Earlville, Ill.

fruits and vegetables are subject almost exclusively to the free market. But wheat, feedgrains, sugar, cotton, rice, dairy products, peanuts, tobacco, honey and many other commodities are produced and sold under various government programs.

SENATE AGRICULTURE Committee Chairman Jesse Helms (R-N.C.) is concerned that "if we insulate farmers from the market, we will be giving up our competitiveness and turning over the world market to other countries, who are just waiting for such an opportunity." Still, Helms does not advocate jettisoning federal farm programs. Instead, he says, "we must set loan rates and target prices at market-clearing levels."

Helms is referring to the two main government price support systems for grains and cotton. Loans are made by the government to farmers who use their crops as collateral. If the market price rises high enough that the farmer can sell his harvest for more than the loan amount, the farmer sells it to a third party, repays the federal loan and keeps the difference. If the market price is not that high, the government takes the farmer's harvest and forgives the loan.

Farmers are also insured against income loss by target prices—set by Congress at arbitrary levels that are usually higher than the prices that are assumed in computing how large a loan a farmer can receive. If the market price does not equal or exceed the target price, the government gives the farmer a "deficiency payment" representing the difference between the two prices.

The farm bill, Helms observes, will not be written along purely economic lines. "Congress is a political mechanism," he says, adding: "It may take 10 years to get the kind of stability we want." With many interests tugging at his committee, he compares the process of writing a farm bill to "trying to drive a chariot with 18 horses."

Chairman E "Kika" de la Garza (D-Tex.) of the House Agriculture Committee tends more toward a public utility philosophy of agriculture. "Whatever you can do to assist the farmer is an investment in the security of this country," he says. "If the farmer is left to the variance of the free market he will fall by the wayside. Whether it will lead to food scarcity, I don't know."

De la Garza takes issue with market proponents' argument that food exports will lead to a healthy farm economy. "Exports are not the answer," he says. "We don't have unlimited markets out there. There are many areas where there is need but no money."

Rep. Thomas Foley (D-Wash.), House whip and a major arbiter of congressional food policy, is somewhat more cautious than de la Garza in embracing government support for farm incomes. He would like to see crop price supports stabilized—so that target prices and loan rates do not rise as rapidly as they have in recent years—and cutbacks in farm acreage. But he still comes down in favor of a strong federal role.

"It strikes me," Foley says, "that the people who say, 'Let them eat cake,' don't say that when it comes to small business or the unemployed."

Observing the divergent views in Congress, Deputy Agriculture Secretary Richard Lyng comments, "It would be foolish to predict the outcome of the 1985 farm debate." The Reagan administration has guided farming in the direction of the market but has not announced the outlines of its farm bill. Lyng will say only, "I'm not sure we need a sea change."

Sen. Mack Mattingly (R-Ga.), a member of the Appropriations Committee's subcommittee that oversees federal farm spending, disagrees: "We should scrap many of the existing programs and start over from scratch."

The current programs were authorized by a patchwork farm bill, passed by Congress in 1981, that reflected pressure from dozens of agriculture groups. The 1981 law assumed, disastrously, that world food and fiber demand would continue to boom as it had in the 1970s, under the artificial stimulus of easy credit to foreign customers. So Congress built large, automatic increases into federal price supports, only to see exports sputter under the double impact of worldwide recession and a dollar so strong that American food and fiber became expensive abroad. (See "Food Exports: A Case of Too Many Cooks," page 57.)

FEDERAL PRICE SUPPORT dollars poured into rural America to make up for lower-than-expected exports. Good weather added to farm problems—a succession of bin-busting crop yields drove down market prices. Despite historically large surpluses of grain and cotton, federal price supports kept American farm prices pegged so high that Canadian, Argentine, Australian and European farmers began to move into some of the United States' traditional markets.

The government scrambled to induce farmers to cut back planting, and under a stopgap Payment-in-Kind program—at an additional cost to taxpayers of $10 billion—farmers received government-owned surpluses instead of cash for taking acreage out of production.

Anticipating continued growth in demand, many farmers went into debt to acquire more land and equipment in the late 1970s, at a time when the Farmers Home Administration, a federal lending agency, encouraged such borrowing. But the value of land used to secure debt declined along with commodity prices. By early 1984, farm indebtedness had risen to $215 billion.

That figure is double the 1978 level, and 18 times what it was in 1950. More than 40 percent of the farmers in one loan program are behind on payments.

In speeches across the country, lawmakers and farm organization leaders are calling 1985 a watershed, a time for searching re-examination of programs that were designed half a century ago to cope with Depression conditions. Already, many in Congress predict that the ax that is expected to fall next year on many other entitlement programs will come down on agriculture price support programs as well.

For some farm groups, such an out-


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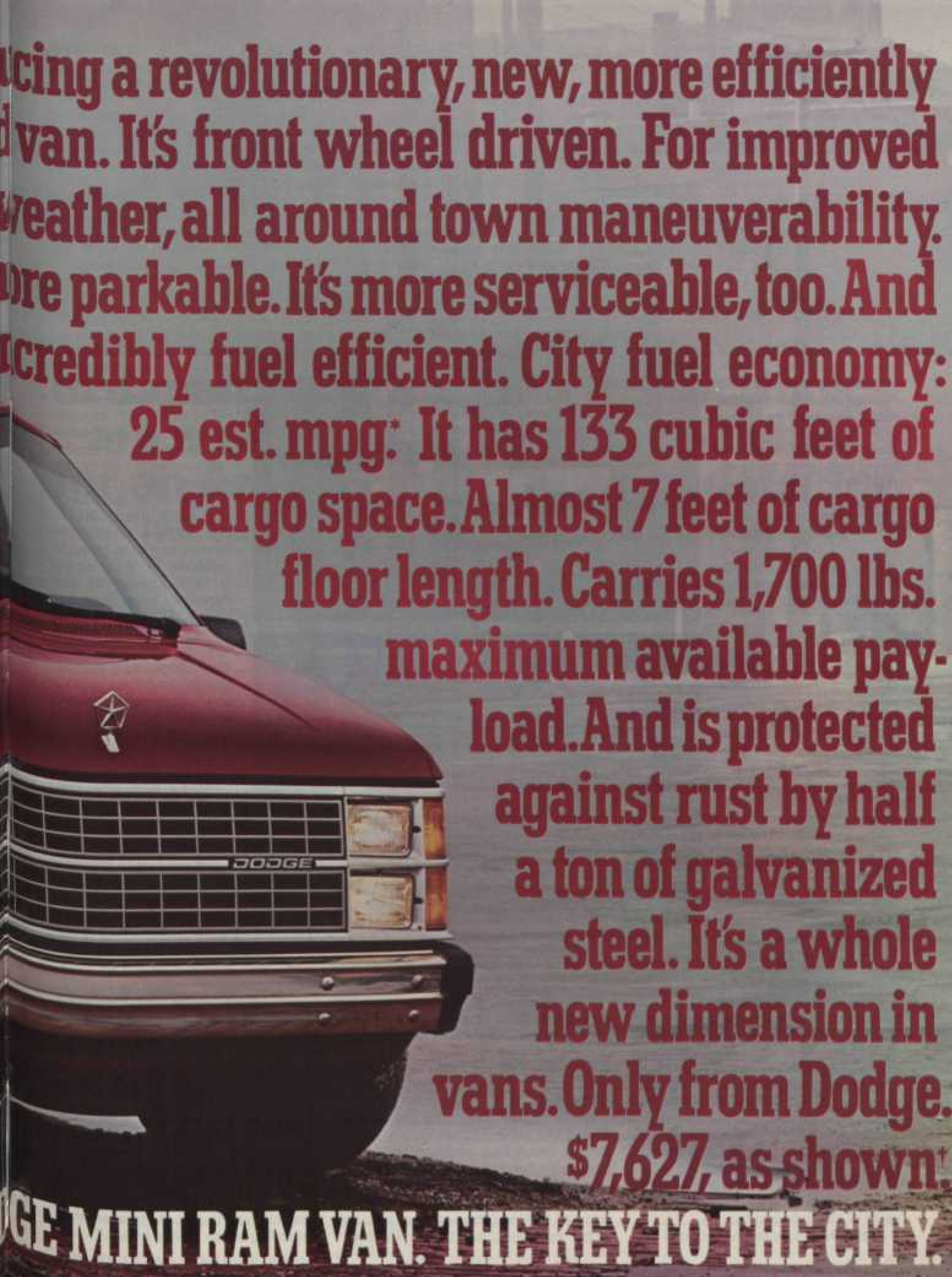
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come of the 1985 farm debate would be welcome. For example, the American Soybean Association's members have practiced free enterprise farming (receiving only minimal government assistance through short-term loans), with more dramatic results than those achieved by producers of other crops.

In 1930, 1.1 million acres each of peanuts and soybeans were under cultivation. Peanut farmers, relying on government aid, are still cultivating about a million acres. Soybean producers, on the other hand, had increased their acreage to 68 million by 1980 and now account for about half of world consumption of the protein-rich beans.

Says Ken Bader, chief executive officer of the Soybean Association: "Government handouts result in a barrage of red tape. They put farmers at the mercy of job-sensitive bureaucrats, a budget-minded Congress and cost-conscious consumers. They mean acreage allotments and other production controls. Even more galling, such a program allows the government to establish a ceiling on farm profits.

"Government budgets face drastic cuts," he continues. "Within this political environment, current support programs are in jeopardy. With the prevailing mood of Congress, the Reagan administration and voters, we're going to see less—not more—tax-subsidized government handouts."

The American Farm Bureau Federation is also campaigning for a market philosophy because, President Robert Delano says, government management "leads to shutting down the U.S. farm production plant and, eventually, to public utility status."

Ross Korves, the Farm Bureau's chief policy analyst, predicts that "when all the smoke clears, the vote in Congress will be between government-controlled agriculture and market-oriented agriculture. The public approach assumes wealth is created without production."

Korves and other economists contend that production controls drive up consumer prices and, by raising the prices of American exports, cripple the United States' ability to bring imports and exports of all kinds into balance.

Stuart Hardy, manager of food and agriculture policy for the U.S. Chamber of Commerce, warns that public utility status for farming would hobble large segments of agriculture-related industries.

"American businesses," he advises, "should seize this opportunity to speak up for market-oriented farm policy reforms aimed at achieving a dynamic, growth-oriented U.S. agriculture capable of competing in domestic and world markets. At stake is not only the prosperity of farmers and ranchers but also the economic vitality of related businesses and the 22 million jobs created by those industries.

"Current farm programs have benefited neither consumers nor family farmers," Hardy continues. "Farm programs have not stabilized the cost of food; rather, they have increased the cost of food.

"Price support programs and import quotas add several billion dollars annually to retail food prices. The public pays twice for farm products—as consumers and as taxpayers."

Analysts maintain that the lion's share of federal farm spending goes to larger operators, not to the idealized small family farm. This year five huge dairy farms each received in excess of $1 million in government funds to cut back production.

And yet, proponents of federally backed farming contend that a heavy dose of free enterprise would leave farmers dangerously exposed to the vagaries of world prices, weather and pestilence.

Cy Carpenter, president of the National Farmers Union—a rival of the Farm Bureau—says market-oriented farming really means "risk-oriented" production. "It leaves the well-being of consumers and farmers to chance," he says. "Either we rely on the anarchy of the marketplace, with its inherent peaks and valleys in prices and supply, or we can adopt a rational, coherent policy of supply management with program benefits targeted to the family-scale sector of agriculture."

Federal farm costs are a small price to pay for the security they buy, says House Agriculture Committee Chairman "Kika" de la Garza (top). Jesse Helms, head of the Senate agriculture panel, wants a reduced federal role.

Members of the American Agriculture Movement, whose tractorcade focused attention on rural problems in Washington in 1979, agree with the Farmers Union. Says National Director David Senter: "We're seeing farm foreclosures, forced liquidations and deterioration in American agriculture" due to the steps already taken toward a more open market.

"The American farmer has been told by policy makers that we must lower our prices to market-clearing levels on world markets," Senter continues. "We have been told we must compete or get out. U.S. producers, in order to compete with foreign producers, would have to lower our standard of living to match the lowest standard of living of any producing country.

"If we lose the family farmer," he warns, "we will never get the seed back for the production system we have now."

On one thing everyone agrees: The stakes in the 1985 farm debate will be high. "It is extremely possible," says William Lesher, assistant Agriculture secretary for economics, "that if an appropriate agriculture policy is not developed and implemented in the 1985 farm bill, there could be irreparable damage to our farm and agribusiness economies and thus to the total economic standing of the United States." □

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Why Safeway Stopped Playing It Safe

Once headed for a career as a diplomat, Peter Magowan chose instead to bring new zest to the retail food business.

By Del Marth

PETER A. MAGOWAN works in his shirt-sleeves—not exactly the sartorial image normally projected by a young chief executive officer bearing educational credentials from Groton Preparatory School, Stanford University, Oxford and the Johns Hopkins School of Advanced International Studies. But then, neither is his office a suite of oak-paneled walls and hunt scene paintings. It is a fifth-floor room in an old, converted warehouse with a view of the Oakland, Calif., produce district.

Clearly, this corporate leader has different priorities than many of his counterparts. He thinks differently. And because he does, he has turned around the fortunes of his company, Safeway Stores, Inc.

PHOTO: CINDY CHARLES—GAMMA-LIAISON

Sixteen years ago, Magowan abandoned his graduate study of politics and international relations, choosing a career with Safeway over service in the diplomatic corps.

He explains: "While studying in Washington, I worked two summers at the State Department. That was enough to convince me I didn't want to spend the rest of my life there."

Today, at age 42, with four years as Safeway's CEO under his belt, he is comfortable with his choice.

"This is a very challenging business," he says. "I don't know of one more competitive or one that changes so fast."

The young executive is proving to be one of the most innovative and agressive in the retail food business.

Says Harry Sunderland, 22 years with Safeway and now its chief financial officer: "When he became chairman, he inherited a company with top-heavy management, deteriorating capital ratios and an obsolete U.S. store system. He has redeveloped the store system and merchandising program into a modern superstore structure, streamlined the management and strengthened the balance sheet."

SUNDERLAND SAYS Magowan's "dynamic leadership has restored Safeway to a strong competitive position." As proof, he points out that the company's stock has more than doubled in price in the last three years.

Other figures bear out Magowan's impact. Last year, Safeway recorded sales of $18.6 billion and earnings of $183.3 million. The earnings were 14.8 percent ahead of the 1982 results and came on top of a 47 percent improvement in '82 over '81. From 1978 to 1981, net income had plummeted 32 percent.

Magowan shies away from taking credit. "A wrong conclusion is often made that a CEO is the guy making all the decisions," he says, "when usually it is the management team that decides what needs doing."

Perhaps, but Safeway is not the same corporation it was before Magowan became CEO in 1980. He acknowledges the change: "We are a very different company today."

In the past, he says, "we had a tendency not to experiment. We watched what someone else would do and then, cautiously, if it was a good idea, we would do it."

Analysts also view Safeway's leader-

To revive Safeway, says Peter Magowan, "we had to become more aggressive merchants, get price-competitive."

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ship in the 1970s as timid: in awe of government regulations, hesitant about advertising loss leaders for fear of running out of the advertised items and reluctant to match prices with aggressive discounters.

The effect: Safeway, the world's largest food retailer, was losing its share of key markets, mostly to regional chains. "Competition is all over the place," Magowan says, "but the biggest we tend to face is the local regional company, like Giant Foods in Washington, Randall's in Houston, Tom Thumb in Dallas, Raley's in Sacramento." In Los Angeles, Safeway's market share slipped to 6.6 percent in 1980 from twice that percentage in the 1970s.

Halting and reversing the trend was Magowan's first move. To him, volume is "the lifeblood of the business." And to achieve it, he says, "we had to become more aggressive merchants, get price-competitive, correct our over-reliance on private labels and be willing to do some experimentation."

His ideas were not out of textbooks. He learned creative retailing in the marketplace, after leaving Johns Hopkins in 1968 to take a job as assistant store manager at a Safeway store in the nation's capital.

After serving as a store manager and later a real estate negotiator in Washington, he moved up to district manager in Houston, then to retail operations manager in Phoenix, to division manager in Tulsa, to Toronto as head of international operations and then on to San Francisco as manager of the company's Western region.

WHEN HIS APPOINTMENT as CEO was announced, headquarters buzzed like one giant party line. Older senior executives had been passed over. And Magowan's elevation seemed clouded by family connections: His grandfather, Charles Merrill of Merrill Lynch, Pierce, Fenner & Smith, was a major force in Safeway when it was incorporated in 1926, and his father, Robert Magowan, was Safeway CEO between 1959 and 1969.

But those who ascribed the son's appointment to nepotism have since recycled their thoughts. Peter Magowan, according to one analysis of trends in the retail food industry, "has brought to Safeway vigor and enthusiasm—intangible assets which, however, have resulted in very tangible advances in sales and earnings."

Moving confidently and swiftly, he closed marginal stores. In fact, the company abandoned entirely its operations in Iowa and Nebraska. He realigned and consolidated the firm's 21 U.S. retail divisions down to 17. The company's meat prefabrication plants were reduced from 12 to 3. To stockholders, he predicted Safeway would soon have "the reputation of operating some of the most interesting and innovative supermarkets in the country."

Those innovations include supermarkets with natural food centers, cheese shops, expanded wine sections, cosmetic centers and full-line floral departments. The company also now operates free-standing specialty shops. The fastest-growing are its Liquor Barns. Safeway operates more than 100 Liquor Barns, which feature wide selections (over 200 California cabernet sauvignons, for example) at discount prices. These outlets, most of which are located in California, produce net profit rates well in excess of those of conventional grocery stores.

"All these things, these innovations, come from listening to our customers and our employes," Magowan says. "Unless you are interested in hearing what they are saying, you may miss changes, you may be too slow.

"I'm away from the office at least one week in three, trying to spend as much time as possible in the stores. Last week, in four days, I visited 35 of our newly acquired Weingarten stores in Texas and Louisiana."

Safeway conducts thousands of customer surveys each year. From them it has learned that most shoppers prefer superstores, markets with 40,000 square feet or more and a much wider range of products than is typically found in a conventional store. Safeway now has 700 of them and is gradually replacing its smaller units.

IT IS MERCHANDISING practices that most challenge Magowan's foresight. "Customers are changing their buying habits," he says. "They are eating away from home more. And they are buying more nonfood items in the grocery store. So we try to make up for food items they are not eating with new items like film, greeting cards, magazines and paperback books, cosmetics, office supplies—things we didn't use to stock.

PHOTO: JAMES SPOHN

Magowan meets often with store employes like these in Phoenix. Unless a food retailer listens to employes and customers, he says, "you may miss changes, you may be too slow."

"People nowadays are spending a smaller percentage of their income for food, and they are eating less red meat but more fish and poultry, drinking less whole milk but more low-fat milk, eating less butter but more margarine. They are eating more produce than ever before."

Pleasing such a changing palate, and accommodating customers' pocketbooks, provide the type of day-to-day challenges that Magowan could not envision occurring in the diplomatic corps.

Though Magowan says Safeway has "had a real turnaround," he talks as though he is merely beginning.

With more than 2,500 stores in the chain today, nearly 600 of them in the United Kingdom, Canada, West Germany and Australia, he looks toward building more Safeway supermarkets in other countries. "In fact," he says, "we believe that the growth opportunities are greater outside the United States." The company plans to add 150 new stores annually, both here and abroad.

In still another commitment to growth, Safeway has built four experimental superstores—one near Tulsa, two near Dallas, one in the San Francisco Bay area—designed by the Doody Company of Columbus, Ohio, specialists in department store layouts. The hope is that these futuristic superstores will boost sales through innovative architecture and interior layout.

Built in a hub-and-spoke pattern, the stores are clearly departmentalized. "Each department carries its own decor," Magowan explains. "So if you are buying cosmetics you see nothing but cosmetics, and the entire department

has a cosmetics decor. All the service departments are clustered in the store's center."

But he does not foresee the Doody-designed stores as dominating Safeway's future. "Because of their design and angles," he says, "the stores do not fit on the typical property we buy, which is rectangular. We have only so many sites where this type of store will fit. And you need the right demographics for such a large store."

Indeed, all factors must be carefully weighed in the retail grocery business; there is little margin for error. "The industry," explains Magowan, "makes about a cent on each dollar of sales."

So Magowan keeps creating, with the aid of expert merchandisers. Many of these have been brought into the company ranks from outside—especially in the area of the new non-food departments. Within the executive offices, he has shifted control to merchants and away from lawyers and accountants.

"Hiring outsiders for a few critical roles did go against Safeway tradition," he says. "But these moves, I believe, have allowed us to develop the business over a much shorter period than would have been the case if we had persisted in our historic approach of developing all our management internally."

And he has centralized advertising, enabling the corporation to achieve greater exposure and a more consistent image by purchasing magazine space and television time at the national level.

ALL THE WHILE his shirt-sleeve leadership of Safeway's 162,000 employes is dispelling the image that an advantaged youth and dynastic family had conjured up. He attends employe award banquets, he encourages no-questions-barred interviews with employes that are printed in the company in-house magazine, and he has been known to visit store managers on weekends wearing jeans and a T-shirt.

Magowan often devotes Saturdays and Sundays to work. But he finds time for outside activities in behalf of the business community—he is a member of the U.S. Chamber of Commerce board of directors—and he manages to get in some tennis, fishing and skiing.

On occasion he enjoys taking over the cooking chores from his wife, no doubt adding one more ingredient to the omelet as his contribution to still another of his Safeway goals. "If each of Safeway's 4 million daily shoppers bought just one more item when shopping," Magowan says, "we could have another $2 billion in sales each year." □

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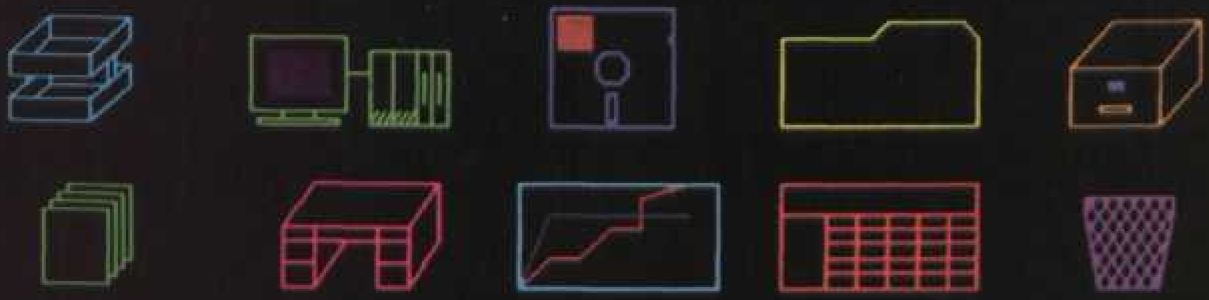

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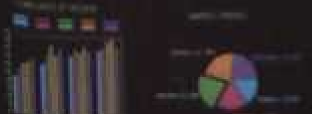

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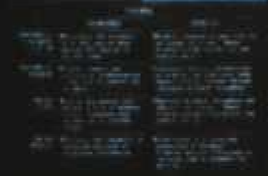

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MONEY MANAGEMENT

Message for Today's Investors: Diversify

Circumstances will differ, and so should personal portfolios.

By Mark O'Brien

ANDREW CARNEGIE once remarked that he put all his eggs in one basket and then watched the basket. That investment philosophy, while successful for Carnegie, would not get much praise today. Indeed, across the spectrum of investment advisers, stock and bond traders, and money market specialists, there arises one common theme: Diversify.

How you diversify your portfolio depends, of course, on its size and your income, your age, how many obligations you have and, perhaps most important, your tastes in investment. But diversify you must.

You have plenty of ways to do so. Deregulation of the investment community has broken down product barriers, spawning an array of financial products for the big and small investor. Whether you have a lot of money or just prospects, your opportunities have changed in the past five years.

"The late 1970s started the heyday of financial planning," says David Dewsnap of Massachusetts Mutual Life Insurance Company, who—like many other insurance agents—has acquired expertise as a general financial planner. "There's so much more you can do now to leave your client better off."

Ted Oakley, a vice president of Rotan Mosle, a Southwest brokerage firm, specializes in portfolio management in Corpus Christi.

MARK O'BRIEN *is an investment adviser in Philadelphia.*

For young executives, top priority should be to put aside four to six months of living expenses, in cash. After that, one expert says, should come "participating to the maximum in tax-deferred plans" like IRAs and Keoghs.

If there were a "typical" executive, Oakley would design his portfolio this way: 30 percent municipal bonds; 50 percent growth-oriented stocks; 20 percent Treasury bills. Percentages would change to suit individual circumstances, but the reasons behind the breakdown apply to most high-income people in mid-career.

"An executive portfolio really must start with municipal bonds," says Oakley, "because the executive is usually in the 50 percent tax bracket."

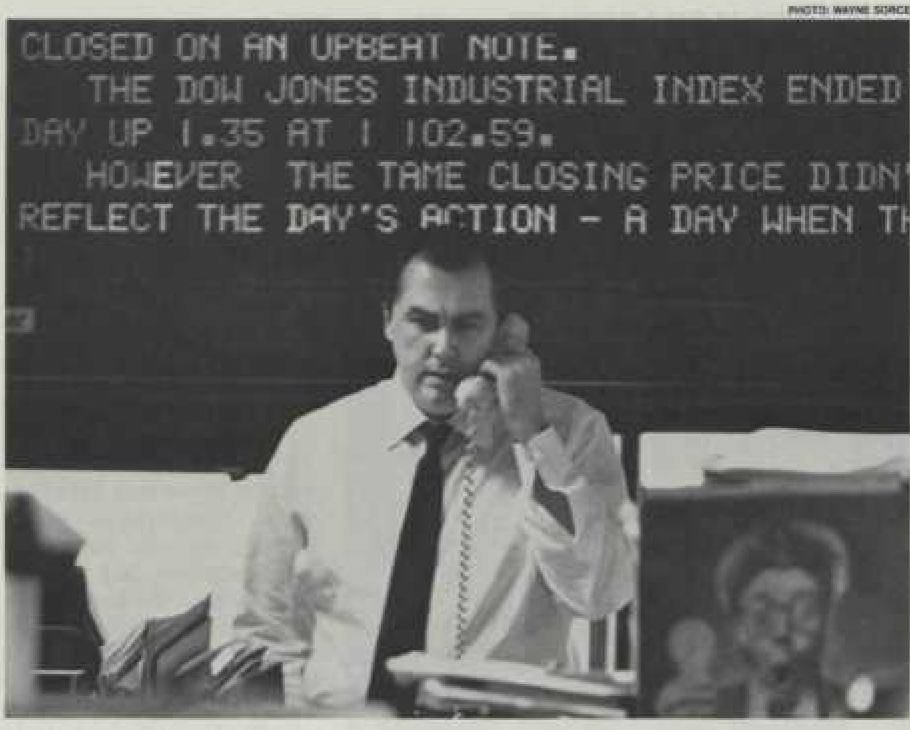
The attraction of municipal bonds, whose interest is tax-free, can be irresistible. A safe 9 percent return—readily obtainable today—equals 18 percent on an after-tax basis if you are in the 50 percent bracket. Even if you are in the 40 percent bracket, it is easy to beat the best money market return with a municipal bond.

Diversification can protect you against loss on municipal bonds. You don't have enough money to buy many different bonds? Buy shares in a municipal bond fund. Then, if one of the fund's selections turns sour, the loss is spread among thousands of shares in the fund.

Also, individual municipal bonds tend to be difficult to resell; a fund's shares are easier to unload in a hurry. You can find individual bonds that pay a higher rate than that paid by a fund, which is an average of many bonds' rates. But you have more risk.

Another way to protect yourself is to keep bonds short—that is, buy bonds maturing in less than three

PHOTO: WAYNE SORCE



A bond trading room at Merrill Lynch: For executives in high tax brackets, municipal bonds can be a best bet.

years. Prices of short bonds do not fluctuate as much as those of long bonds. If interest rates go up, bond prices—in one of the perversities of that dismal science, economics—go down. A long municipal bond in a period of rising interest rates could lock you into the worst of all worlds—a low price if you wanted to sell and relatively low current income if you did not.

The owner of a Pennsylvania business sold it in the early 1960s for $2 million and put his money, after taxes, into high-yielding municipal bonds. His money was safe in theory, but not in actuality. Inflation he had not foreseen began to eat at the money's real worth, and when interest rates in general doubled, his bonds' current market value plummeted. With 15 years left to maturity, he panicked, selling the bonds for barely half of what he had paid for them and what they would bring when eventually redeemed.

Picking an investment-quality short-term municipal bond is simple, certainly far easier than picking a good stock.

Not all kinds of stocks have a place in the optimum executive portfolio. Oakley recommends medium-sized growth companies. "Generally the executive approaching 50, with 15 to 20 years of work ahead, doesn't need much risk," he says. "That's why I would stay away from small emerging growth companies."

MEDIUM-SIZED growth companies frequently do not pay dividends, which would be taxed at ordinary income levels. Rather, your return comes when you sell, and your profit is taxed at the low long-term capital gains level if you have held the stock long enough. (The Tax Reform Act of 1984 reduces the holding period from a year to six months.)

The medium-sized growth company—sales from $100 million to $250 million—is one that has successfully passed from the entrepreneurial stage to a stage in which it needs professional management skill, a quality often lacking in growth firms' founders.

Many small emerging growth companies fail to make the difficult transition—thus the risk in them. The computer software industry is one in which numerous companies face this transition challenge today.

Apart from tax considerations, stocks tend to be the best hedge in the financial markets against inflation. And best among stocks are smaller, fast-growing companies.

For the 55 years from 1926 to 1981, an index of the smallest companies on the New York Stock Exchange shows

Should You See a Financial Planner?

We all have financial problems, particularly around tax time. But there are problems, and then there are *problems*. Your lawyer or accountant can help you decide whether you should see a financial planner. If the decision is yes, where should you go?

The 100 member firms of the Investment Counsel Association of America advise the very wealthy. The portfolio size is seldom less than $500,000.

Scudder, Stevens & Clark founded the investment counseling industry in Boston in 1919. The idea then as now was to offer pure advice, unbiased by pressure to earn commissions. The typical fee is .8 of 1 percent for the first million dollars, less for the second or third. For more information, write the ICAA, 50 Broad Street, Room 532, New York, N.Y. 10004.

A new breed of financial planners today serves those less well-off. Expanding the ranks of insurance salesmen and bank trust officers—traditional planners for the middle classes—are graduates of a variety of college and professional programs.

Two years ago the 240-chapter American Society of Chartered Life Underwriters, an insurance association, began awarding the Chartered Financial Consultant designation. The chapter nearest you, listed in the Yellow Pages, will provide a list.

The College for Financial Planning in Denver awards the Certified Financial Planner's designation. C.F.P.s tend to be stockbrokers, though many are also lawyers and accountants. To locate C.F.P.s near your home, write the college at 3443 S. Galena, Suite 190, Denver, Colo. 80231.

Compensation varies. Some planners work on a fee-only basis, but most are compensated through commissions on products they recommend you buy. Since commissions pose the possibility of conflict of interest, some experts say the best arrangement is a fixed fee, with a yearly fee for a review. But fees can be much more costly than commissions. You take your choice and pay your money.

an average 12 percent annual return, combining dividends and price increases. (Listing on the NYSE requires certain sales and profit levels, so all these companies are actually medium-sized.) A 500-stock index dominated by larger companies shows a return of 9 percent. Corporate bonds show 3.6 percent and government bonds 3 percent. Inflation averaged 3 percent over the same period.

With 30 percent in municipal bonds and 50 percent in growth companies, 20 percent is left for everything else.

In Oakley's model portfolio, the everything else should provide liquidity and safety first, inflation protection second. Oakley likes Treasury bills of six months' maturity or less, which currently yield about 11 percent. Treasury bills are as safe an investment as exists, and they have excellent liquidity. With the inflation rate now low and interest rates high, they also keep you ahead of inflation—something they have not done historically; usually they have merely matched it.

PHOTO: STEVE GOLDBLATT

Investment adviser Richard Sperry: Young executives' tax-deferred money should go into high-yielding corporate bonds and an aggressive mutual stock fund.

If you are richer in prospects and in children to raise than in dollars, the Oakley portfolio may be premature. A salary of $100,000 may sound like a lot, but after taxes and monthly mortgage payments, many executives at that income level have little left over for investments.

"The tax laws are slanted against the high-income executive," says financial planner Kemp Fain, president of the Institute of Certified Financial Planners. Thanks to write-offs, he says, "we can do a great deal to help the self-employed professional or small business owner. But it is hard for a younger, high-income executive to get to the point where he has accumulated enough liquid wealth to need professional portfolio advice."

Most investment advisers agree that everyone should have four to six months of living expenses in cash. If you are just getting by on your salary, your first investment goal should be to lay away about half a year's earnings in a place where you can get them in a hurry. That place might be a money market fund or the cash value built up in an insurance policy.

Once the living expense assets are tucked away—no easy chore—you can turn to building a long-range portfolio.

"The first thing a fairly young, capital-starved executive should consider is participating to the maximum in tax-deferred plans," says Richard Sperry, a vice president of Scudder, Stevens & Clark, the nation's oldest independent investment adviser.

Sperry says individual retirement accounts, Keogh plans, 401(k)s and deferred profit sharing plans are a relatively painless way to invest, since much of the money would be going to taxes, anyway. These investment vehicles, in which your money grows tax-free until you take it out, are such a good deal that many advisers recommend borrowing funds to put into them—deducting the interest for tax purposes, of course.

Where should the younger executive's tax-deferred plan money go? Says Sperry: into high-yielding corporate bonds and an aggressive mutual stock fund.

The corporate bond must pay a high rate of interest to lure investors away from the safer and more liquid Treasury bond and the less liquid but tax-free municipal bond. The special advantage of IRAs and other tax-deferred plans is that they make high-yielding corporate bonds tax-free. Interest on the interest is allowed to compound unmolested by the tax collector until you retire, when you presumably are in a lower bracket. At an untaxed rate of 12 percent, money doubles in just six years.

A second argument for corporate bonds: Inflation is running around 4 percent. Today's investment-quality bond yields of 12 percent provide an inflation-adjusted return of 8 percent—such bonds' highest rate of real return since World War II. Bond owners are being paid to own bonds, whereas during the 1970s, thanks to raging inflation, the return was negative.

Emerging growth stocks are an alternative to corporate bonds. They can provide a greater return than medium-sized growth companies—if you can wait long enough. As mentioned before, they also carry great risk. However, there is no need to take on more risk than necessary.

Statistical studies show the way to cut the risk without cutting the return is to buy at least 16 different growth stocks, across industry lines. But picking such stocks can be a lot of work. An easier alternative is to buy shares in a mutual fund. (See "Picking the Right Mutual Fund," page 60.)

The Investment Company Institute, in Washington, reports that 100 mutual funds specialize in emerging growth companies. Some specialize in certain kinds of growth companies only. Rather than buy into a fund that invests solely in genetic engineering, say, you may want to spread the high risk with a fund that invests in a variety of fast-growth fields. A mutual fund's prospectus spells out its goals.

Once you make full use of tax-deferred plans, if you manage to do so, you may want to get into other stock investments as well as municipal bonds and Treasuries. You also may want to get into some more speculative areas—tax shelters, perhaps, or options.

Tax shelters fall into the speculative category because of their illiquid nature, their complexity and their risk. Daniel Parks, a financial planner and

member of the Houston law firm of Parks, Tradd, Mulder & Miller, says no more than 15 percent of any portfolio should go into shelters.

A tax shelter avoids taxes now and promises a capital gain in the future. Your home is a tax shelter. You deduct the mortgage interest and expect to sell it for a long-term capital gain. Were you able to depreciate your house—which you are not—it would be an even better tax shelter. But those are the goals of a tax shelter: depreciation, interest deductions and capital gains. Problems start when investors try to make a tax shelter do the maximum in all three categories. One example:

Ted Oakley prescribes a portfolio made up of growth stocks, municipal bonds and T-bills.

Stretching between Philadelphia and points north and west are thousands of empty railroad hopper cars, slowly rusting through the seasons. Many were built for tax reasons, not because of demand. They may glut the market for years, a waste to their owners.

YOU CAN BUY a tax shelter from your stockbroker. There are many types; the most common are real estate, cable television, research and development, and computer leasing. Tax shelter salesmen are quick to explain the tax benefits, but experts say you should concentrate on the business aspects before addressing the tax benefits.

"If the shelter is a garden apartment building in Denver, get on the phone and find out for yourself if Denver can support another garden apartment building," says Lyle Hall, chairman of the Sovereign Group, tax shelter subsidiary of Butcher & Company, a Philadelphia-headquartered brokerage firm.

You should also have your lawyer and accountant go over the shelter, but expect to double-check them. According to Hall, many lawyers and accountants lack experience with the complexities. Your expectations should be conservative. As a rule of thumb, Hall says, any shelter that allows a write-off of more than twice the cash investment is suspect.

Nearly as complex as tax shelters are stock options and stock index options. A new class of financial asset, they lend themselves to a variety of strategies: to preserve a gain in stock prices, to increase current income at no risk to principal, to multiply principal tenfold at great risk. Options are remarkably versatile. Most investors know only their speculative, risky side, but that side is perhaps least suited to executive portfolios.

"Options and other hedging tools seem to be the game of the 1980s," says Scott Ryan of Walsh, Greenwood, a New York Stock Exchange firm specializing in institutional options trading. "Growth was the game of the 1960s, and market timing the game of the 1970s. Now it's buy something and sell something else against it."

Do hedging strategies make sense for the high-income executive? Not now, according to Ryan, but they might in the near future.

The Tax Reform Act of 1984 changed the tax treatment of options. Previously, any option gain was taxed at ordinary rates; now, 60 percent will be treated as long-term gain and 40 percent as short-term gain.

UNDER THE NEW LAW, Ryan says, executives should still regard municipal bonds as the foundation of their portfolios, but now they can diversify their holdings with a stock index option. If stock prices surge, as they did in August, 1982, an index option would put the executive in the market in time to catch the rise, and 60 percent of the appreciation would be treated as a long-term capital gain.

"The new law allows the executive to be far more active in the market," says Ryan, "and, in my opinion, should completely change the way executive portfolios are mananged."

The right attitude is as important to the optimum portfolio as the proper allocation of assets. If you are a typical executive, you do not have the time or information to be a trader—in one day and out the next. Rather you must be an investor, with a minimum time horizon of three to five years—the length of a complete market cycle, from peak to peak or trough to trough. If you do not let your portfolio run, you will be swapping horses in midstream, a risky business.

A portfolio balanced across a variety of assets will serve you in a variety of economic settings. Whether inflation, disinflation, robust economy or stale economy, you will sleep nights. The portfolio will not make you rich quick, but it will at least preserve your savings' purchasing power—in these days, no small achievement. □

Staying Afloat If Your Business Sinks

Your business has been doing better since recession days, but you wonder: How can I keep from going under myself if the business goes under in some future recession?

The time-tested road to take, if you have not already done so, is incorporation, which separates your business liabilities from your personal assets.

But make sure you keep personal assets separate from corporate assets. Mingled checking accounts, for instance, could entitle a creditor to go after your assets, "piercing the corporate veil."

Joint ownership with your spouse can also protect you from business creditors. But assets held in joint ownership outside marriage, in business partnership for instance, can be attached.

If yours is a closely held company, bank loans and equipment leasing agreements are apt to require your spouse's personal guarantee as well as yours. Whether you are incorporated or not, personal assets of both you and your spouse will then be attachable. Better consider liability insurance.

Rights vary from state to state. If you are from Texas, for instance, old homesteading laws allow you to keep your home and one acre, and all the improvements you can pour into that acre, no matter how much you owe.

"Texas is a wonderful state to be in debt in," says a Houston lawyer.

THE NATION'S NEWSPAPERS ARE UP TO SOMETHING FISHY.

A free press vs. free competition

The American Newspaper Publishers Association (ANPA) is conducting a concerted but clouded campaign aimed at changing third class postal rates and regulations. Their real goal, however, is to stamp out competition and regain a very profitable monopoly.

If they succeed, it will prove costly to two of the nation's largest, least vocal groups: Consumers and Retailers —specifically, you and the merchants in your neighborhood. It will unnecessarily raise prices by increasing costs. And, in the process, the U.S. Postal Service could be crippled.

Here's the issue: ANPA is applying its considerable financial strength and political clout to bamboozle the public and bully the Postal Rate Commission into *doubling* the cost of third class mail and eliminating the detached labels that make "shared mail" possible. Shared mail is what makes it practical for national advertisers and neighborhood merchants to deliver money-saving coupons and sales circulars to 87 million American Households by mailing several in a single package.

They call it "junk"

Ironically, the newspaper industry makes millions of dollars distributing identical circulars, but they call them "junk" when retailers choose to mail them.

Junk, indeed! More and more merchants rely on shared mail precisely because they find it a valuable, economical alternative to expensive newspaper advertising. One reason is that a shared mailing can reach up to 98% of the households in the specific Zip Code areas surrounding their stores, while less than 51% of the nation's households even receive daily newspaper deliveries. Far more efficient, far more effective— shared mailings are an important way your neighborhood stores can control their costs and your prices.

It's a flim-flam

Since ANPA can't compete successfully on the facts, it is clouding the issue, claiming these third class mailings are subsidized by first class postage rates. Sound reasonable? It's total nonsense. Shared mailings require far less handling and transportation by the Postal Service. They are delivered completely presorted... in the exact sequence each letter carrier walks his or her route. In point of fact, *shared mailings comprise the single most cost-effective, fastest-growing revenue source for the U.S. Postal Service.* Without it, substantial rate increases across all classes of mail would be a virtual certainty.

The entire issue is like a red herring stuffed with misinformation and wrapped in nonsense. But it's not too late to fight back. For more information about what you can do, write us at the address below.

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MONEY MANAGEMENT

Loans That Save Troubled Companies

More and more firms already deep in debt are turning to asset-based financing.

By Robert I. Goldman

WHEN A COMPANY runs into trouble, banks and suppliers come clamoring for their money. In the past, such a crisis usually meant selling off valuable assets to satisfy debts or filing for protection under Chapter 11 of the federal bankruptcy code. Today, however, a growing number of companies are electing to use asset-based financing.

The ability to stay in business through alternative financing can sometimes produce extraordinary results. Although Ideal Toy possessed the marketing rights to Rubik's Cube, the company was on the verge of bankruptcy. If it had not been able to borrow against its accounts receivable and its inventory to get working capital, the company would not have been around to enjoy the soaring sales and profits that this product generated. Ideal was subsequently sold to CBS for a very handsome sum.

In asset-based financing, loans are made on a secured basis against the company's tangible assets, such as accounts receivable, inventory, plant and equipment. Lower interest rates and availability of larger loans are among the principal reasons for the emergence of this financing mechanism. Asset-based lenders include commercial finance companies and the secured lending departments of banks, which in recent years have significantly expanded their activities.

Unsecured credit would be preferable, of course. But troubled companies having difficulty meeting traditional bank loans usually need additional money to get back on their feet. To obtain the money, they must often restructure their debt and offer a substantial amount of unencumbered assets as loan collateral. They must also win the cooperation of existing lenders and perhaps major suppliers.

The bank, meanwhile, is obligated by government regulations to establish reserves against a potential loss on unsecured loans. To get out of the loan, or at least reduce its size, the bank usually encourages borrowers to sell off assets and apply the proceeds to the loan. If this is not feasible, it generally seeks to collateralize the unsecured loan under a new agreement with covenants that may establish net worth and working capital minimums, plus restrictions on capital expenditures, salaries and payment of dividends.

BOTH THOSE approaches, designed with only the bank in mind, will probably leave the company worse off than before. But suppose a new lender steps in with fresh funds, secured by the same type of collateral the bank wants to use to satisfy its present loan?

This asset-based financing has saved many companies that otherwise would have been forced out of business, because it can often generate enough funds for both traditional loan payments and added working capital. Most creditors will listen to any new financing plan that enhances their chances for repayment and spares them liquidations, which generally involve large write-offs. And if the company's problems are eventually resolved, their cooperative attitude could help them regain a valued customer. The troubled company therefore has a certain degree of bargaining power.

When a lighting fixtures manufacturer began losing money and its loan became classified, the bank shifted the account to its own secured-lending department. Despite new management and a realistic restructuring plan, the company did not have enough collateral to sup-

PHOTO: MARTIN ROBERTS

A leveraged buyout let a textile machinery firm return to profitability.

ROBERT I. GOLDMAN is president and chief executive officer of Congress Financial Corporation, a nationwide commercial finance company based in New York City.

port the bank loans and also provide essential working capital. Owners of the company came up with personal funds, primarily obtained through second mortgages on their homes, to support a higher level of credit. The bank matched these funds, and the added working capital bought time for a turnaround.

IT IS NOT UNUSUAL for one asset-based lender to step in where another wants out. Often, independent commercial finance companies, whose stock-in-trade is trouble, are more venturesome and flexible than the secured-lending arm of a bank. Generally, a company that looks around should be able to find a replacement for a reluctant lender.

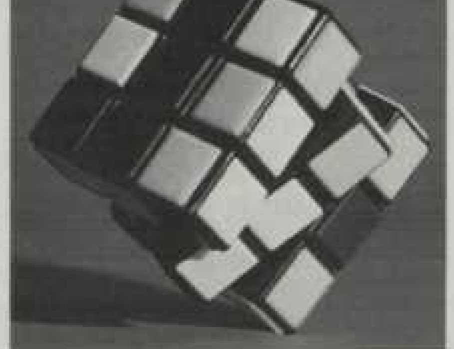
Even when the financial problem is relatively mild, the bank may want to get out of its loan because it has lost faith in the company's performance. Another lender can then step in to replace the bank, dollar for dollar, if there is sufficient collateral. If additional funds are needed, the new lender can devise a broader or more creative package of assets to provide adequate cash flow.

Selling the company may be inevitable, however. A new lender could speed the process by financing a leveraged buyout, in which the buyer finances the purchase largely by borrowing against the acquired company's assets.

A dramatic example of a leveraged buyout that turned into a turnaround is the Whitin Roberts Company of Charlotte, one of the country's oldest manufacturers of textile machinery.

When a downturn hit the textile industry in 1981, Whitin Roberts suffered significant losses for two successive years. An investor who owned a small textile machinery plant in New Hampshire offered to buy the operation from the parent company, White Consolidated Industries. The purchase price was met by arranging a $4 million loan on the accounts receivable, inventory and equipment of Whitin Roberts, plus loans against its real estate.

PHOTO: T. MICHAEL KEZA



Borrowing against inventory helped Ideal Toy profit from Rubik's Cube.

The arrangement enabled the new owner to reorganize operations, reduce overhead and revive product development. Within a year, Whitin Roberts achieved a 20 percent sales increase and was once again operating profitably.

Given severe financial problems, a new lender may persuade the bank to take a subordinate position on its loan in exchange for a partial cash payment and the prospect of a better opportunity for full payment in the future.

An industrial products manufacturer in the Midwest was losing a substantial amount of money, and its unsecured bank and insurance company lenders realized they would not soon be repaid. An asset-based lending group came in, and an extended plan of repayment was set up. Assets pledged to the new lenders provided enough money to immediately pay off about a third of the existing loans, plus additional lines of credit to let the company take advantage of improved business conditions.

The aim of the troubled company, of course, is to avoid Chapter 11 proceedings, which involve large legal expenses, not to mention all the other adverse consequences. But asset-based financing is also a complex undertaking. A new lender should be experienced and skillful in structuring and negotiating. The company may wish to retain a consultant who specializes in turnaround financing to develop the strategy.

GOOD COLLATERAL does not automatically qualify a troubled firm for turnaround financing. Secured lenders have to be satisfied that they are entering a viable situation. They base their decisions on a number of considerations:

- A complete and candid explanation by management of the company's problems and why the difficulties arose.
- A plan for recovery that addresses all the company's problems. This usually means projecting cash flow, cutting overhead, reducing inventory and forecasting sales based on a somewhat changed mix of products or services.
- Possibly, additional equity from stockholders or supplementary financing from top managers. Sometimes this is necessary to achieve enough cash flow; in other cases it functions as a show of confidence by the individuals who have the most to gain.
- An appraisal of the company's management ability. A company's financial troubles raise questions about its managers. If management appears to be incompetent, no seasoned lender will go forward with a plan for turnaround financing, however much collateral exists.

With the right ingredients, turnaround financing lets everyone gain. It can relieve immediate pressure on both the company and its creditors.

The company gets the time, flexibility and availability of funds required to pilot itself back to health. Creditors are given a better chance at full repayment, and if the turnaround program is successful, banks can resume their normal financial relationships with a revitalized customer that once again qualifies for unsecured borrowing. □

To order reprints of this special report, see page 65.

Helping Cast-Off Managers

By Harry David

PERHAPS YANKEES OWNER George Steinbrenner has been through it so often with his on-again, off-again manager, Billy Martin, that he has it down pat. But for the typical executive, having to tell an employe "You're fired" is a traumatic experience. His hands perspire, his heart pounds, and he cannot look his employe in the eye.

To ease the trauma—both yours and your employe's—you can turn to an outplacement firm. For a fee the firm's counselors will advise you and, later, your ex-employe.

PHOTO: MICKEY PALMER—FOCUS ON SPORTS

Bosses, like umpires, have felt Billy Martin's hot temper. For most bosses, if not Martin's, a firing is traumatic.

"Our people role-play with the manager before he terminates someone," says John McCormick, an executive with the outplacement firm of Drake Beam Morin, headquartered in New York. "Sometimes they also negotiate the employe's termination perks."

This firing-made-easy method has been around for 15 years or so. The outplacement industry grosses $30 million to $50 million annually for counseling some 5,000 to 10,000 cast-off employes and their bosses.

Outplacers distinguish themselves from the career counseling firms whose clients are the job hunters themselves rather than the managers who fired them. Outplacement firms are usually paid by corporate and other organizational clients. For their services they generally charge 15 percent of the fired person's annual salary, plus $500 to $1,000 to provide desk space, mailings, a telephone and stationery, usually for six months.

"We teach the executive to fire quickly and cleanly," says Henry Weir, in-house psychologist of Drake Beam Morin. Instead of leading up gradually to the unpleasant matter at hand ("How is your family? How is Jack doing at college?"), the executive is advised to come to the point at once.

After the executive has spent two or three minutes delivering the termination talk, he can take his employe to the next room, where an outplacement counselor is waiting. The executive's role has lasted no longer than a walk to the water cooler.

HARRY DAVID *is head of H.D. Associates, a Washington, D.C., management consulting firm.*

"Behind the closed door, men cry on my shoulder at such a moment," reports Robert A. Finnie, a principal partner of the outplacement firm of Right Associates, headquartered in Philadelphia.

"And sometimes I then have to help them pack up their things."

Finnie leads the fired employe out of the office and into a three-stage approach to job finding. During the first stage the candidate learns how to put his best foot forward in interviews; in the second he focuses on the most realistic options; in the third he weighs offers and makes a decision "based on objective criteria."

Outplacement firms do not invariably offer full-service job counseling. For example, Thomas Hubbard, chairman and chief executive officer of New York–based Thinc, says that he provides space only for interviews with the counselor. "At all other times the individual works on his own," he says. "We do not feel that we must give him an umbilical cord. If he asks, 'What did you do for me today?' the answer is 'Nothing.' A good consultant must be empathetic, not sympathetic."

MANY OUTPLACERS believe in providing only grimly utilitarian space arrangements: In some offices two or three job hunters crowd into a cubicle, and those helped by Finnie's firm work out of a small basement room. "Austerity," says one counselor, "encourages candidates to get out and hustle."

But life in outplacement land can also be near-idyllic. The headquarters of LeHane Consultants, Inc., in Leesburg, Va., is the Glenfiddish House, a 144-year-old home furnished with antiques where clients can forget the rough world outside.

Some executives don't need outplacement firms to salve the corporate conscience. Clifton Ehrlich, senior vice president for human resources of Marriott Corporation, the 139,000-employe restaurant and hotel chain, uses outplacement "from time to time, cautiously." More often, he uses in-house experts to help those whom the corporation must fire.

On the other hand, John Phillippi, a vice president of G.K. Young & Associates, an engineering consulting firm headquartered in Springfield, Va., is an outplacement booster. "In human terms, what we spend is worth it to us," he says.

Morgan Stanley, the New York investment firm, uses outplacement "selectively and primarily for senior people," says Homer Clock, the company's human resources counsel. "We want to be of help to them and save them from the worst of the shock."

Other companies, however, use outplacement across the board. Three years ago industry conditions forced Minneapolis-based Midwest Federal Savings & Loan Association to let 25 percent of its employes go. Says Robert J. Zeller, senior vice president of operations, "Many of them, from officers through middle management to support personnel, had never faced unemployment. We felt that outplacement would be of help."

If you use that managerial tool, select and use it wisely.

- Offer it to those who want and need it. Use your judgment. Some people are highly marketable and prefer to go it on their own.
- Speak to the counselors who will work with your ex-employes. You should know to whom you entrust their future.
- Ask what approaches the firm uses and how long it will provide counseling and office space.
- Require that the counselors report to you periodically.

Of course, if you hire your employes carefully, train them thoroughly and motivate them to ever-greater heights of productivity and loyalty, you will probably never need an outplacement firm, because you will never have to fire anyone. □

Some crises—a plant closing, say—can be anticipated. Others, like this accident, cannot. But both kinds of crisis can be controlled and managed.

Coping With Crises

Labor strike, natural disaster—some kind of crisis is inevitable in business. But you can be ready for it.

By Steven Fink

CRISES IN BUSINESS today are as inevitable as death and taxes. Every company—large or small, public or private—runs the risk of encountering some situation that, if mishandled, can cause irreparable damage. This damage can include a severe swing in the public's attitude toward the company, lawsuits, strikes or even bankruptcy.

But if forward-thinking people can plan ahead for death and taxes, a forward-thinking chief executive officer can plan ahead for the next business crisis. One reason many CEOs do not is that they suffer from the "it can't happen here" syndrome.

But disasters, labor strife and critical, product-related problems demonstrate all too forcefully that a crisis can occur with little or no warning—anywhere, anytime.

Another reason for many companies' inaction is that senior managers are apt to experience an often fatal case of "analysis paralysis." By the time they have acknowledged that they do have a crisis and have completed their analysis of it, their company is already paralyzed by its effects.

The third and perhaps most easily corrected reason is that many companies simply do not recognize the warning signs of an impending crisis—or the crisis itself, when it arrives. They cannot manage a crisis because they do not know what one is.

From a practical, business-oriented point of view, a crisis is any unfavorable situation that entails the risk that it will:

- Escalate in intensity.
- Bring the firm under close media or governmental scrutiny.
- Interfere with normal operations.
- Jeopardize the positive public image enjoyed by a company or its CEO.
- Damage a company's bottom line in any way.

A well-organized and comprehensive crisis management plan is essential to be able to control and manage a crisis. Such a plan is a blueprint for handling the mechanics of a crisis. The plan should be assembled when the company is operating smoothly. This is the same advice accountants give about tax planning and lawyers give about wills: Do not wait until it is too late.

It is important to realize that if you are not now in a crisis, you are instead in a pre-crisis situation and should make immediate preparations for the crisis that looms on the horizon.

There are two types of crises: those that are anticipated (plant closings, massive layoffs and union strikes) and those that are unanticipated (nuclear power plant accidents, chemical plant explosions, and terrorist hostage-takings). Through proper crisis management planning, both types can be controlled and managed by following three basic steps:

- Identify the crisis—quickly.
- Isolate the crisis—quickly.
- Deal with the crisis—quickly.

Sometimes an anticipated crisis can be averted very simply—for example, by including a sentence or two in a personnel policy manual. Take this sentence: "Any employe accused of wrongdoing will be suspended immediately without pay, pending an investigation. If found guilty, the employe will be terminated. If exonerated, the employe will be reinstated with back pay."

A statement like that should be in every company's—especially every public company's—employe manual.

One all-too-common crisis occurs

STEVEN FINK is president of Lexicon Communications Corp. of Los Angeles, a public relations firm that counsels clients on crisis management and avoidance.

PHOTOS: KEVIN HORN—PICTURE GROUP

The crisis spawned by the Tylenol poisonings in Chicago meant that the manufacturer had to be ready to assure the public that it would be protected.

when a company announces that it is closing a plant or a division for economic reasons. Unions protest, workers picket, lawsuits ensue and the news media make the company look like a villain.

The company did not make that hard decision on the day it announced it. Clearly, it had to have seen the fiscal handwriting on the wall for some time.

WHAT, THEN, COULD THE company have done to minimize repercussions and avert a crisis—and still close the plant? Assume the following:

- The parent company knows six months in advance that the plant will have to go.
- There is a $1 million per month payroll at that plant. The company has, therefore, allocated $6 million more in payroll expenses.
- The company plans to make the announcement of the closing one month prior to its taking place—five full months after the decision was made.

But what if the company announces five months in advance, instead of one, that it is closing the plant? And what if it simultaneously announces that it is spending $1 million to help displaced workers find other employment, help with job retraining programs, offer family counseling and so on? The $1 million that it spends is, of course, the last of the $6 million it would have spent on wages, had it kept the plant open the full six months.

While the foregoing example is not necessarily recommended as a universal course of action, it illustrates the importance of viewing a situation broadly before it becomes a crisis and of identifying it as a potential crisis. It also illustrates how such a potential crisis not only can be averted but turned into a plus for a company's image.

Isolating the unanticipated crisis is of paramount importance, especially when lives are at stake. The CEO, once the crisis is identified, must turn over administrative duties to others and focus on the crisis only.

Having identified and isolated the crisis, the company is now free to deal with it unfettered. And this is where the importance of a crisis management plan comes in. Some companies, particularly those subject to volatile situations, turn to outside consulting firms for help in putting together a crisis management plan.

A crisis management plan can never tell a company how to deal with the specific context of a crisis. That would be fortune-telling. But, well in advance of a crisis, the plan details who will be on the various crisis management teams (there may be more than one, depending on the nature of the crisis). It also dictates who will speak for the company on any given issue.

Many companies have run into difficulties in the past by assuming that the CEO should be the spokesman in any situation, crisis or otherwise. But the CEO may be the worst possible spokesman if a crisis is of a technical nature and his understanding of the technical aspects is weak.

THE HYATT HOTEL disaster in Kansas City, where the skyway collapsed and killed 114 people, required a spokesman who had knowledge of structural engineering. The Three Mile Island accident required a spokesman who not only had a firm grasp of the operations of a nuclear power plant but could discuss them in layman's terms.

But the Tylenol poisonings did not require a spokesman to explain how the capsules were manufactured. It required executives who communicated to the public that Johnson & Johnson was a caring company that would do whatever it could to ease the public's fears.

Identifying spokesmen ahead of time is only one example of how a crisis management plan can be used effectively. Such a plan allows the company to act quickly because all the guesswork has been removed from the mechanics of handling the crisis.

A well-thought-out crisis management plan will also tell a company such things as:

- How its public relations department should communicate a controlled assessment of the crisis to the world.
- Who in a crisis must be notified and by whom.
- Which governmental agencies should be alerted and who will do that.
- What the switchboard operators will tell the public and the news media when they call.
- How to use a national 800 (toll-free) telephone number as a rumor control hotline. (You don't have an 800 number? Do you know how long it can take to have one hooked up? Order one today and have it installed as soon as possible. You don't have to use it; just have it available at a moment's notice when you do need it.)
- Who will operate the rumor control hotline and whether they should be psychologically stress-tested to measure their ability to deal with a constant flood of anxiety-ridden and abusive strangers on the telephone.
- How lower- and mid-level employes should be trained to spot a potential crisis and how they should transmit this information to senior management.

Even though your crisis may not command major attention from the media, your business is important to you, and you should do whatever you can do to protect it. Just because a business crisis is as inevitable as death and taxes, you need not succumb to it. □

The Promise of Automation

It brings savings in labor costs, but the big gains are in quality and inventory control.

By Mike Lewis

PHOTOS: DAN McCOY—RAINBOW

Computer-assisted design is important in automated manufacturing. This display depicts a robot arm valve inserter for a General Electric plant in Troy, Mich.

Lasers serve many functions in factories. They are often used as cutting devices, but this AID 800 laser made by Automatix in Billerica, Mass., is being tested before shipment for use in welding.

PICTURE A FACTORY of the future: Hundreds of robots swarm across the factory floor, busily performing all the tasks needed to manufacture widgets. Nowhere in the vast plant is a human being to be found. But at a control panel hundreds of miles away, a sole human technician monitors the performance of this plant and a dozen others like it.

For some people, this image of the future might be a dream; for others, a nightmare. Regardless, the people who are bringing automation to manufacturing processes say it is unlikely ever to come true.

As a matter of fact, the great advantage of automated manufacturing is not even reduced personnel costs, according to the engineers and manufacturing executives who have brought high technology to plants around the country. Typically, labor accounts directly for only about 10 percent of manufacturing costs, even in nonautomated plants, explains Robert B. Erskine, who heads General Electric Company's production management.

For all the talk of robots' displacing blue-collar workers, robotics represents only a minor portion of automation. Erskine says GE has, at most, 2,000 robots, compared with a manufacturing work force of 350,000. "The robots perform a vital function" by freeing workers from potentially dangerous or mind-numbing tasks, he says, but "the idea of lots of little robots running around is absurd."

If personnel costs are not a major factor, what are the benefits to companies climbing aboard the automation bandwagon?

Short-term payback is one consideration, of course, but most companies are thinking of long-term gains. Says Charles Duncheon, vice president for marketing at Denver-based Fared Robots System, a three-year-old firm that designs and installs automated factory lines: "The biggest payback, so far, is quality consistency and capacity consistency."

"Quality is much more important" than personnel savings, GE's Erskine agrees, "as is the inventory reduction and flexibility" made possible by precision equipment that can adjust a plant's production rapidly to match even minor changes in the marketplace.

With the advantages that automation offers, why aren't all companies updating their manufacturing techniques?

WHEN THE National Electrical Manufacturers Association surveyed senior managers at its member firms earlier this year, 73 percent of the companies responding said the biggest obstacle to automation was not hostility to it but rather lack of knowledge among design and engineering staffs. The second biggest difficulty was lack of appropriate software—for programing, for communication among sophisticated machines, for computer support.

Another recent study, this one of middle management engineers by the Institute of Industrial Engineers, drew a less rosy picture of the acceptance of automation. More than half of the industrial engineers who responded identified major people-related obstacles to improved productivity through automation. They included failure by management to understand how improvements can be achieved, as well as insufficient staff to direct changes aimed at improved productivity and to measure the results. The engineers also cited the inability of labor and management to work toward common productivity goals.

Nearly half the industrial engineers predict that another country—most likely Japan—will surpass the United States in productivity in 10 years. Less than 30 percent expect the United States to remain the most productive industrial nation for another 10 years.

Training engineers and operators to design and maintain high technology equipment is, nearly all manufacturers say, a great challenge.

More and more of the burden of

Priam Corporation in San Jose, Calif., automated to keep its plant near its headquarters staff. Heads for the company's Winchester disk drives are assembled in a clean room.

PHOTO: PRIAM

training workers will have to be assumed by industry, says Homer J. Hagedorn, who specializes in organization and human resources issues for Arthur D. Little, Inc., the Cambridge, Mass.-based consulting firm.

Because automation is a continuing process with frequent improvements in technology, Hagedorn says, companies that automate must constantly train and retrain workers.

"There aren't any schools that know how" to provide that kind of training, he says, adding that there is no reason to expect the federal government to spend large sums on such training. Individual companies will thus be left with the training burden.

HAGEDORN PREDICTS that nearly every manufacturing company will make a substantial financial commitment to training. Some training programs, he says, will be run in-house, but others will be run by equipment manufacturers and suppliers—who may find training a lucrative service—and by firms specializing in training.

The decision to automate is seldom made by the manufacturing executives who see the need for automation most directly. Because of the costs of automation—not only for equipment but sometimes also for redesigning products for ease of manufacture—the executives who make corporate strategy must be involved.

"That's one of the serious internal problems," says the National Electrical Manufacturers Association's manager of automated systems, William C. Rolland. "We've got to train senior accountants and the top people to understand" that expensive equipment for automation can be upgraded in the future, for re-use in even more sophisticated systems. The flexibility that automation provides, Rolland says, can make a three-year payback period cost-efficient in industries that have traditionally expected a one-year payback.

The principal tax benefit from automation is the investment tax credit, with an effective rate of 8 percent, and depreciation over five years. Additionally, nearly all states have depreciation allowances for business equipment.

A number of companies in electronics and other industries have moved production to Asia, drawn by low labor costs. But many firms are now looking at automation as an alternative to offshore manufacturing.

Priam Corporation, of San Jose, Calif., a maker of disk drives for computers, has decided automation is the answer. The three-year-old company produces a full line of Winchester disk drives that it sells to computer manufacturers for $2,000 to $3,000 per unit. Priam generated $63.4 million in sales last year and had to decide how to expand its production facilities.

It considered moving its factory to Asia, but because product life cycles are short and getting shorter, Priam wanted to keep the plant near its engineering and pre-production staffs, so information could be shared more easily. That meant keeping the plant in the Silicon Valley area, near company headquarters, even though labor was expensive and rather scarce.

THE SOLUTION was to take the company public in June, 1983, "and we currently have about $46 million on the balance sheet," President William J. Schroeder says. With that liquidity, the company could build a $10 million, 142,000-square-foot plant near its headquarters.

Because of market conditions, Schroeder says, the company has produced only 150 to 200 disk drives a day since moving into the new plant early this year, despite a projected capacity of 1,200 a day. Priam is, however, reducing the time formerly required to make a $3,000 disk drive.

The process of making Priam a fully automated manufacturer is a long way from completion. It is several years and perhaps another $10 million away, with automated work stations and an information management system yet to be added.

Schroeder says the idea is to position the company for a future in which what he calls "glorified garage shops," in Silicon Valley and elsewhere in the United States, will compete against highly automated Japanese firms.

In Priam's industry, U.S. manufacturers at the low end of the disk-drive business are "beating a path overseas" to Singapore, Hong Kong and Puerto Rico, Schroeder says. But his direct competitors—those making more expensive drives—are automating to keep production near their engineers and their customers.

Investing $10 million "may be peanuts to General Motors," Schroeder says, "but it's an awfully big number for Priam." That big number, he says, is an investment he expects will pay off in improved ability to compete with Japanese companies.

And, multiplied many times as other companies automate their plants, those dollars could pay off handsomely in much stronger and more competitive American industry. □

Eating To Prepare for Stress

In a pressure cooker on the job? Diet can help.

By Phyllis M. Barrier

IF YOU ARE under pressure at work, you should pay particular attention to what you eat. Scientists have begun to investigate the connection between stress and your nutritional well-being. The early evidence suggests that eating right can help minimize some of the undue effects of stress on your body.

Until now, most research on nutrition and stress has concentrated on stress with physical origins—injury, burns, infections, surgery—rather than psychological and emotional stress. As with other forms of stress, however, psychological stress triggers hormonal and metabolic responses in your body.

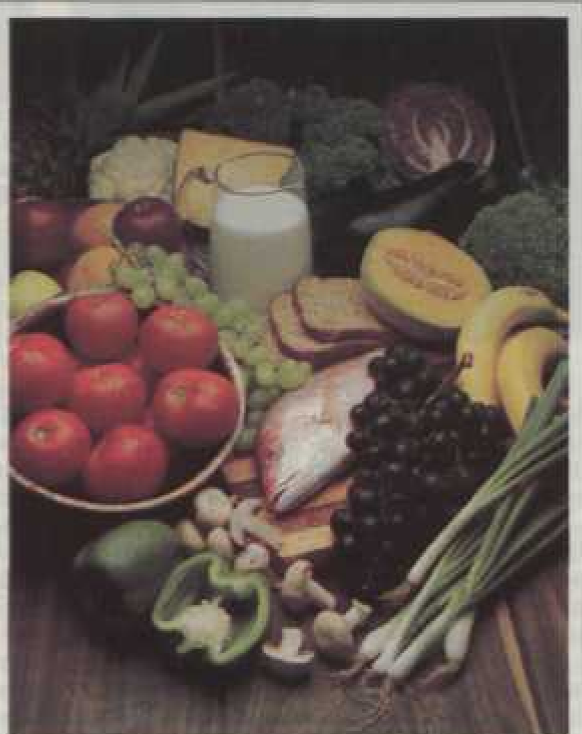
In regard to nutrition, we know that psychological stress affects calcium, which plays an important role in the maintenance of strong bones and teeth, and in many other functions. It appears that stress decreases the amount of calcium that is absorbed during digestion, and it also may increase the amount that is excreted by the body.

For women, calcium is especially important, since about 25 percent of American women experience problems with osteoporosis (brittle bones) after menopause. Many women do not get enough calcium in their diets even when stress is not a factor; perhaps because of weight-consciousness, they avoid dairy products, the best source of calcium. For businesswomen who are under stress, getting enough calcium is doubly important, because part of what they do take in is probably not being used by the body.

Increased excretion of other minerals—potassium, zinc, copper, magnesium—has also been reported as a response to psychological stress. All these minerals are vital to your health: Potassium is essential for maintaining proper fluid balance in your body and for muscle and nerve activity; zinc, for many enzymatic reactions and for growth; copper, for the production of red blood cells; magnesium, for the synthesis of protein and for the functioning of muscles and nerves.

Fortunately, these vital minerals are present in a wide variety of foods—potassium in fruits, vegetables, whole grains, fish and poultry; zinc in meats, seafood and eggs; copper in seafood, liver, fruits, vegetables, nuts, seeds and dried beans; and magnesium in green vegetables, whole grains, nuts, seeds and legumes.

PHOTO: FRED GERLICH



A well-balanced diet, made up of nourishing foods from all the basic groups, can protect the body from the damaging effects of emotional stress.

YOU MAY NEED additional vitamin C if you are under stress, although this has not yet been proven. We do know that smokers and women taking birth control pills need extra vitamin C. If you fall into either of these categories and are also under stress, you should be sure to include vitamin C in your diet every day. The most convenient source is a glass of orange or tomato juice. Other sources are citrus fruits, strawberries, cauliflower, broccoli, tomatoes and green peppers.

Emotional stress also may interfere with the digestion of fat. If you find you have heartburn or other digestive discomforts after eating a high-fat meal, try reducing your fat intake.

Though stress appears to affect your body's need for certain vitamins and minerals, this does not mean that popping a vitamin pill—even if it is advertised for stress—is the answer.

So what can you do to protect yourself against the long-term effects of stress?

First, you should consume a well-balanced diet that includes foods from all the basic groups; only in this way can you be sure to get the more than 40 nutrients that have been identified as essential to good health, including resistance to possible ill effects of stress. You may wish to pay special attention to foods that provide those vitamins and minerals affected by stress—but not to the point that you neglect other, equally important nutrients.

Eating a proper diet consistently, day by day and week by week, is crucial. If, for example, you regularly eat enough dairy products to bring your calcium intake up to the recommended level—and your diet is adequate in other respects—your body should not need any calcium supplements to meet the effects of stress. On the other hand, if you have neglected calcium-containing foods, and you suddenly find yourself under severe stress, consuming a quart of milk or a calcium supplement for one day will not help much.

It is important not to add self-inflicted stress to your life. For some individuals, stress leads to overeating, which leads to obesity. Obesity may then produce further psychological stress—and more overeating.

Finally, it is well documented that physical exercise is a healthy outlet for stress. After a day of hard work under stress, it is difficult to go home and be physically active, but it is important to take part in an enjoyable physical activity—to stimulate the cardiovascular system, to burn off calories and to reduce tension. □

PHYLLIS M. BARRIER, *a registered dietitian, is a public health professional and nutrition consultant in the Washington area.*

Food Exports: A Case Of Too Many Cooks

Beset by conflicting policies, U.S. farmers are losing foreign markets.

AMERICAN agriculture, the country's largest economic sector and the world's biggest food and fiber producer, is steadily losing important export markets. Stagnation looms, analysts say, unless the United States' hodgepodge production and trading system adapts to meet strong new competitive challenges abroad.

"We are being slaughtered in export markets," says Glenn Tussey, trade specialist with the American Farm Bureau Federation.

After more than a decade of dramatic yearly increases in overseas sales, four of America's big five commodities are declining in world market share. Many observers say this threatens to eliminate some of the nation's 2.3 million farms and 22 million agriculture-related jobs. Approximately two out of every five American farm acres produces crops for export.

In 1982, the United States sold other nations 48 percent of the wheat they imported. In 1985, the Agriculture Department predicts, the American share will plummet to 36 percent. Over the same period American rice's market share is expected to drop from 23 to 17 percent, cotton from 33 to 29 percent and feed grains from 64 to 61 percent. Soybeans' market share is flat at 56 percent.

With domestic demand expected to grow little more than 1 percent annually until the end of the century, the foreign market has become "the flywheel of future growth in agriculture," says Kenneth Farrell, director of agriculture policy at Resources for the Future, a Washington research organization. But the strong dollar and artificially high government commodity price supports have made American food too expensive compared with that of competing countries.

In addition, the United States' occasional use of food embargoes for political purposes has raised questions about its reliability as a supplier and has spurred importers to find other sources.

The 1980 embargo on grain shipments to the Soviet Union resulted in Moscow's buying more grain from Argentina. In 1973, Japan encouraged Brazil to produce soybeans when the United States cut back its exports to accommodate rising demand at home.

Canada, Australia, Argentina, the European Community, Brazil and, recently, even Thailand and other small emerging exporters are collectively squeezing American exports. And many customers of American farmers, like Nigeria and China, are striving for greater self-sufficiency in food.

Often, competing nations will subsidize their own farm sectors to enable them to undercut the United States' exports. The European Community, traditionally a net food importer, has in recent years stimulated exports to the point that it has made impressive inroads into America's Middle Eastern trade.

SAYS STUART HARDY, manager of food and agriculture policy at the U.S. Chamber of Commerce: "The integration of U.S. agriculture into the world economy poses several new challenges—specifically, the need to become more competitive in price, more reliable in supply and more responsive to the changing requirements of world markets. The boom years of the 1970s, fueled by strong world demand and favorable currency exchange rates, have now ended."

The outcome of next year's debate in Congress over farm legislation will determine whether a more competitive, market-oriented pricing system replaces the current system of high, government-set prices. But many other factors will continue to affect food exports.

Often, protectionist moves intended to shield nonagricultural industries wind up harming food sales, as America's trading partners retaliate by imposing barriers to imports of U.S. farm products.

For example, U.S. Wheat Association President Winston Wilson says recent textile quotas on Chinese imports saved the American textile industry about $50 million—and cost farmers an estimated $1 billion in food exports to China.

U.S. Trade Representative William Brock says subsidizing food exports, which some in Congress say American agriculture needs to offset European subsidies, "is the most dangerous thing happening in the world today, because [subsidies] cause enormous distortions in world trade." Like gas price wars at service stations, subsidies benefit the

PHOTOS: AMERICAN SOYBEAN ASSOCIATION

American soybean exports meet over half the world's demand for that commodity. But U.S. crops like wheat, feedgrains, cotton and rice are losing market share.

customers but ultimately damage all food exporters, Brock and other free traders insist.

The free traders maintain that America's food exports to potentially lucrative markets in many developing countries are depressed because protectionists in Congress have restricted those countries' nonfarm exports to the United States.

Says Robert Delano, president of the American Farm Bureau Federation: "Agriculture can grow only to the extent the world economy grows and more people have more money to spend on more food. The world economy will grow only to the extent that credit is available to efficient borrowers and if markets are accessible to world trade. Protectionism in industrial goods and services industries must be repelled. Without access to our markets, potential food importers will not have the hard currency they need to buy from us."

Aggressive marketing has produced sales of U.S. soybeans to nations like Taiwan, where children drink soybean milk.

THE ROAD BACK toward big American food trade surpluses will be slow and uphill, say leading export forecasters.

America's biggest markets in the future will be in the developing countries whose economies are entering the "takeoff" stage of industrial growth and diversity—South Korea, Taiwan, the Middle Eastern nations and many Latin American countries.

Food exports to Hong Kong, for example, were valued at $344 million last year, with new 7-Eleven stores and supermarkets expected to demand more in the future.

But the lingering shadow of the worldwide recession diminishes the prospects for any major growth in exports to such nations in the near term, says John Dunmore, head of the Agriculture Department's world analysis branch.

Eastern Europe, which absorbed huge amounts of American exports in the 1970s, is not considered likely to be a significant market in the next few years. The Iron Curtain nations paid for food with easy American credit and have been slow to repay their debts. With loan money tight and the Eastern European economies incapable of generating much wealth to pay for imports, that market is stagnant.

Continued sales to the Soviet Union are foreseen as profitable, though, and, long term, there is a potentially huge market in China. Already, the Wheat Association is building bakery and milling facilities there, in the hope of cultivating a Chinese taste for wheat products. But the bottom line, says Ross Korves, chief policy analyst with the Farm Bureau, is that "there is no surge of food exports anticipated."

In Congress and the Reagan administration, there is support for shifting more federal resources from high price supports into stimulating markets abroad. More credit, guarantees that exports will not be interrupted, and targeted actions to regain lost markets are expected to play a major role in whatever 1985 farm law is passed by Congress.

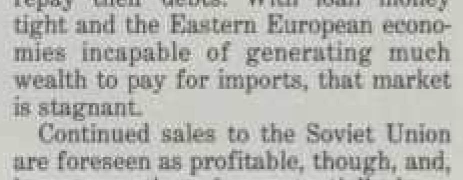
Even as the world economy recovers from recession and nations buy more food and move toward higher protein diets, there is no assurance that the United States will benefit from this growth in demand. Other countries are learning there is money to be made from farming.

Says Korves: "The most important point is that the world has not run out of land that can be brought into production; neither has the world come close to using the available technology to increase yields." The United States, he says, runs the risk of becoming agriculture's equivalent of the Organization of Petroleum Exporting Countries. Although its supplies are abundant, it will lose markets, as OPEC has done, if it prices its products too high.

Consumers abroad will substitute other exporters' food and begin developing their own farm systems, just as the West switched to fuels other than petroleum and conserved until OPEC prices came down.

The key to increasing export market share, free traders argue, is a price policy conforming with world-market levels. The American farmer would then have a fighting chance of re-establishing his pre-eminent role in the global competition for sales of farm products, under the free-trade approach. □

—Henry Eason



World Agriculture Demand in 2000

(In millions of metric tons)

Region	Meat	Milk	Cereals	Oilseed	Fiber
North Africa/Middle East	13.2	43.0	142	10	1.7
Sub-Saharan	9.9	19.3	108	9	.8
European Community	25.4	111.0	133	44	1.2
Other Western Europe	7.3	26.3	58	10	.4
U.S.S.R.	24.3	118.3	306	20	3.6
Eastern Europe	14.8	56.7	139	17	1.2
South Asia	4.1	72.7	291	17	6.4
East Asia	18.7	15.1	224	23	3.5
China, Vietnam, Laos, Kampuchea, North Korea	42.4	14.3	457	37	7.3
Oceania	3.2	8.8	16	2	.4
Latin America	29.5	68.0	161	18	1.9
North America	33.9	79.1	254	43	1.5
World total	226.7	632.5	2,290	249	29.9
Growth from 1980	**64%**	**36%**	**46%**	**62%**	**37%**

Source: U.S. Department of Agriculture

Picking the Right Mutual Fund

By Ray Brady

IF YOU LIKE puzzles, try to figure this one out: Viewed as a whole, virtually every type of investment connected with the financial markets—whether stocks or bonds, pension funds or mutual funds—has taken a real drubbing over most of the past year.

Yet in the first quarter of the year, even as stock and bond prices were being pounded on Wall Street, the amount of money invested in stock mutual funds reached the second highest level on record.

Most financial experts believe the explanation is that, as stock and bond prices kept going down, investors decided it was time to let the professionals handle their money. So they bought mutual fund shares.

William G. Droms, who teaches finance at Georgetown University (and who has written a book on mutual funds) does not argue with that point of view.

"Just about anybody who cannot follow the stock market on a day-to-day basis should invest in mutual funds," Droms says.

PHOTO: T. MICHAEL KEZA

William Droms: "Just about anybody who cannot follow the stock market on a day-to-day basis should invest in mutual funds."

Droms practices that old-time religion known as price averaging. Says he: "No matter what is happening in the stock market, if you keep buying on, say, a monthly or quarterly basis, eventually you'll find that you're going into the black on your investment." The record seems to bear him out. Over a 10-year period the mutual funds have tended to do fairly well.

If an investor picked the right funds—and plowed back any distributions he got from them—he could have shown a gain of 900 percent or more in such big winners as the Oppenheimer Special Fund, the Linder Fund and the Fidelity Magellan Fund.

That being so, what kind of mutual fund should the investor pick? The funds are almost as varied as the stocks they buy.

Some invest solely in gold, or in energy. Even in the sloppy market of 1984, some funds that put money into oil stocks early in the year have done well. For the investor who is interested primarily in income, there are funds that emphasize dividends from stocks and interest from bonds.

San Diego's Pacific Century Group emphasizes small, aggressive growth companies. "I'm looking for a company with something unique that will make it grow at a geometric rate," says the fund manager, Arthur Nicholas.

There are also funds designed for specialized groups. For example, Merrill Lynch has one that is aimed primarily at the younger individual who prefers to invest in fields with which he or she is personally familiar. It focuses on such areas as leisure and entertainment. At least one new mutual fund is aimed at women who have little knowledge of finance.

SO THE FIRST THINGS to decide are just how you want your money invested and whether you want it to grow or simply to yield you an income.

One prime source of information on the makeup of the funds is the Wiesenberger Investment Companies Service, a reference book that is the only publication that lists the name, address and investment philosophy of every mutual fund. It costs $245 a year, but it is available in many public libraries.

Once you have figured out which type of fund may be for you, Bill Droms suggests, you should write a few of them and obtain prospectuses. They will give you a detailed look at each fund's method of operation.

"You want to make sure that the fund has roughly the same investment philosophy you do," says Droms. "That is very important if you are to feel comfortable when the market turns down."

When such times come, some fund managements can offer you a choice from a whole group of funds with differing investment aims. Often, with just a telephone call, you can call the management group and switch your money from, say, a stock fund to one specializing in bonds.

In some cases, you can keep your money in a money market mutual fund that buys U.S. Treasury bills and other short-term investments. When interest rates are high, you can cash in on the juicy yields available in money market funds. Then, if you think stocks are about to take off, you can call and switch your money from the money market fund to one investing in, say, growth stocks.

A word of caution: Although that sounds easy to do—especially judging by the fund managements' advertising—you should remember that if we could all pick stock market bottoms, many of us would not still be working.

Another cautionary word: Don't be so swept away by finding just the "right" fund that you neglect to look into what your investment in a fund is going to cost you.

If you are buying what is called a load fund, sold through a broker or some other financial intermediary, a sales fee of up to 8½ percent will be deducted from your investment. That means you will have less money working for you in the market.

No-load funds usually deal directly with the investor and carry no sales charge. Many investors prefer this type of fund.

But it is well to remember that some of the best-performing funds carry a load charge—and more than make up for it with their gains in a good market year. □

RAY BRADY *is the business correspondent for CBS News.*

PHOTO: STEVE GOLDBLATT

George Clement uses comic strip characters like "Cathy" to help clients communicate with employes.

Helping Employers Talk to Employes

George Y. Clement was just 22 in 1962 when his father died and he was discharged from the Army to go home to Philadelphia and run the family business. He had graduated from Bucknell University with a bachelor's degree in business, and from the Army Leadership School as a second lieutenant, before being sent to West Germany to work in a publications and printing plant.

"The Army fills you with patriotism," says Clement, president of Clement Communications. "I was anxious to get into something where I could make a contribution." He also wanted a challenge, and he wondered if the family enterprise could fill those needs.

The firm was started in 1919 by his grandfather and namesake, George Y. Clement, to help employers communicate with employes. Grandfather Clement's endeavor helped employers promote the benefits of capitalism to thousands of workers who, as immigrants to America, were living under a free enterprise system for the first time. The means: pamphlets prepared by Clement Communications and mailed to the employes' homes.

The elder George Clement's son, Joseph A. Clement, took over during World War II and found that employers were looking for new ways to reach workers. "Free enterprise was no longer an issue," says the firm's current chief executive. Employers wanted to address topics like productivity and quality. Joseph introduced the idea of using posters, and it caught on when corporations discovered that messages conveyed by posters were more effective than those sent to employes' homes.

Joseph built the company from 700 clients to 2,100. When he died, it had 18 employes and was reaching about 133,000 workers with its messages.

With a good management team already in place, young George Clement could concentrate on learning the business. He was sure that the company could make a contribution to society. To deal with his concern about whether it would offer him enough challenge, he decided to aim for growth.

Today, Clement Communications, now located in the Philadelphia suburb of Concordville, reaches 4.5 million workers weekly through 90,000 clients. Annual revenues exceed $10 million.

Products include bulletins that help salespeople increase their sales or supervisors improve their skills, but 7 of the firm's 12 product lines are poster series. One uses James Unger's "Herman" cartoons to make points about teamwork or absenteeism. A cost of $2.50-$2.75 per poster is typical.

George Clement says he has learned some valuable secrets over the years. One is to listen to the customers. "That is motherhood and apple pie, but it's so important," he says. He and his managers realized years ago that although they had a lot of information on their clients, "we had no sense of them. We decided we would make an effort to get to know them better." Now all salaried persons—about half of the firm's 120 employes—visit clients to talk face to face every year.

He has also learned to create an environment that encourages ideas to bubble up from all parts of the organization. "The people at the bottom may have ideas that are as good as mine and lots of times better, because they are closer to the clients," he says.

Nevertheless, Clement admits it was tough to acquiesce when two fairly new marketing employes conceived a poster series based on Cathy Guisewite's popular comic strip, "Cathy." Even though clients were asking for something that would address women employes in a nonstereotyped way, he felt "Cathy" was "too obvious, too easy," he recalls.

But the employes made a good case for their proposal. The "Cathy" series was launched last November, and 1,000 clients signed up immediately.

The man who almost turned the idea down now refers to it as "a bit of a miracle." Says he: "I have been absolutely amazed at its success."

—Sharon Nelton

Selling Souvenirs By the Foot

Call them notions, gimcracks, tokens, knicknacks, whigmaleeries—the fact remains, Judith Kaplan has nickeled-and-dimed her way to $2 million in sales annually.

Her warehouse in Ocala, Fla., all

15,000 square feet, is a colossal collection of doodads that she says are "bought by the mile and sold by the foot" to gift shops in museums, planetariums, zoos and aquariums. Some are also sold to corporations for gifts for employes and customers.

Action Packets, Inc., was started—with stamps, a Kaplan hobby—in the basement of her home in Queens, N.Y., six years ago.

Kaplan and her husband, Warren, sold stamps and first-day-of-issue covers to fellow collectors as a sideline while she sold life insurance and Warren worked as a stockbroker. Weekends, they took their two children to museums. During one visit, Kaplan got the idea of selling stamps in packets, each packet on a theme like railroads or animals or women's suffrage.

"When we called the museum gift shops," she says, "they would say, 'Send a catalog.' We didn't have one. Many shops took packets on faith and because we had a liberal return policy."

The first order, from a planetarium in Centerport, N.Y., brought in $100. That was encouraging enough for the Kaplans to sink $20,000 of savings into distributing commemorative stamps. The stamps led to distributing and selling rubber snakes, plastic airplanes and zodiac key chains. And then space items, with gift shops asking for flight patches and model space capsules.

The basement overflowed with stock. In two years of working full time in their new business, the Kaplans counted $100,000 in sales to 100 customers.

Enticed by Florida, they transferred the growing company to Ocala in 1980. And they published a catalog.

"We started at the low end, with children's items," says Judith Kaplan, 45, the firm's president. "But we've expanded upward. We still sell a lot of plastic animals for a nickel or a dime, but we also now offer a telescope at $500."

Today Action Packets distributes more than 2,500 items. Manufacturers and local distributors of similar items abound, but most require minimum orders. Action Packets will take orders from museums for a half dozen of an item, to test the market.

"Although we now have about 1,000 accounts, we've just scratched the surface," says Judith Kaplan. "More and more cities are building museums."

To prepare for more business, she says, Action Packets, now a closed company, will go public later this year.

She will use stock sale funds to double the firm's warehouse and office space in Ocala and "build the business into a major company." And, no doubt, add more employes (there now are 20).

Her husband is working full time running Tripex, a second company they started to sell only postage stamps.

PHOTO: DEL MARTH

The suit of armor is not one of the thousands of items Judith Kaplan sells.

In 1985, says Kaplan, "we will hit $3 million in sales. It is simply a matter of listening to what the customers want. We don't find a product we like and then try to sell it; we let the museums tell us what they want and then get it for them."

Many requests are for items related to outer space, which make up 30 percent of the company's business. Most popular is freeze-dried ice cream—200,000 packages of this astronaut's dessert are sold each year.

Net profit on distribution of products like those in Kaplan's line traditionally hovers around 1 percent. Kaplan manages nearer 4 percent. But she is close-mouthed about where she buys, and at what prices.

She is not so secretive, however, about helping women in business. Once a leader in the New York chapter of the National Organization for Women, she often speaks in Ocala at civic club meetings, encouraging other women to duplicate her success.

—Del Marth

How To Call A Million Sales

From the beginning, Roger W. Eddy thought he had "a product that would last forever." He was thinking of its virtual indestructibility, but its durability has turned out to extend to sales, too. He has been shipping it around the world from his barn in Newington, Conn., for 31 years.

The product is the Audubon bird call, a pewter plug in a wooden socket. It retails for $4 in mail order catalogs, sporting goods stores and national park shops, and direct from Eddy.

When the metal plug, which is dusted with powdered resin, is twisted in the socket of a cylindrical wooden body, it makes high-pitched squeaks that attract birds and animals.

Others have made bird calls, but Eddy, who registered the Audubon trademark, dominates the market. Nature lovers buy his calls, parents buy them for their children, guides and hunters use them to call up game. So far, Eddy has sold more than a million.

Eddy got the idea for the bird call in 1952, while he and his wife, Deborah, were visiting Italy, where he had been stationed during World War II. He was fascinated by the varieties of calls and whistles bird hunters used there.

When he returned to Newington, Eddy says, "I started fooling around trying to make something like that myself." He had written a novel and several magazine articles, but he was not making enough to live on, and he saw the bird call as a salable product. He viewed it as a toy for rich people.

Eddy asked a local woodworking shop to make him some birchwood bodies. (The same shop is still making the wooden sockets today.) Then Eddy went to a giant plant in Hartford and asked if a die could be made to cast his metal part. Yes, he was told, but the die would cost $3,500. So he looked for something cheaper.

Someone sent him to a retired jeweler, who agreed to make the die for $50. Metal for the plugs came from a tavern's discarded beer cooler. "That's what it takes," says Eddy. "You just keep asking, and somebody will tell you where to find what you need."

With boxes of bird calls in hand,

PHOTO: MARNA CLARKE

The Audubon bird call has been keeping Roger Eddy in business for 31 years.

Eddy went looking for customers. One day in New York City, discouraged and about ready to call it quits and look for a regular job, Eddy got in to see the president of Abercrombie & Fitch, the sporting goods store. The man bought two dozen bird calls with money from his own pocket. That was Eddy's first big sale.

He placed a small ad in the *New Yorker*, and that brought him some mail orders. Then a literary agent he knew suggested that he write the story of his efforts for the *Saturday Evening Post*. The magazine published his account, and then "the roof fell in," Eddy says.

"Suddenly I needed 10,000 bird calls to fill orders," he says, "and we couldn't make them fast enough." Instead of continuing to pour molten metal by hand into his plug mold, Eddy found a metal shop that could make the plugs by injection die casting on a semiautomatic machine.

Another nearby company provided the screws to hold the bird call parts together, and still another furnished the small red boxes in which the bird calls are packed after hand assembly. Eddy no longer does all the assembly himself. Like the other operations, it is now jobbed out.

"I am the belt," he says. "I move things around to where they're needed." He brings the finished, packed boxes home to his barn (which can also hold 10,000 bales of hay for his dairy herd) and from there he does all the shipping and billing. He has no employes, except for an "all-purpose secretary" and the people who work on his farm. His wife has always helped in the business.

Eddy grosses more than $110,000 a year. He thinks the bird call keeps selling because "it's useful and inexpensive and it works; there aren't many things like that any more."

He believes "90 percent of business is selling. You can have the wheel, and if you don't go out and sell, it won't move.

"And the final test of a product is whether people will buy it. No matter how great it is, if people don't buy it, you're out of business."

Eddy also counsels: "Don't overlook the Yellow Pages. If you live anywhere in the United States you can find whatever you want in the phone book. You'll find that everybody wants to help you. That's how they make money—by helping you."

—Harry Bacas

Second Time Around In the Forests

Like a kid whistling past a dark alley, Robert Stilin ignored the last recession. He did not acknowledge it, so it did not exist—for him.

Sawmills were closing across the country as his North Country Lumber Company, at Mellen, Wis., tripled production, expanded operations and made money.

This happened under the leadership of a man "with sawdust in my blood" who admits he once abandoned logging because he thought the country was running out of trees. Stilin became a bank manager in 1964 after deciding he needed a new career to support a growing family (seven daughters and a son).

It was not long before he realized there was plenty of good wood left in second-growth forests, and he returned to logging. Today his company outproduces the peak 10 million annual board feet of lumber sawed by a mill located in Mellen when virgin timber was cut.

Stilin, 55, sums up the success of North Country Lumber in two words: quality and service.

When a Minneapolis company asks for a load of lumber, "it will be at their door when they open the next morning," he says. Mill hands are trained to cut wood the way it is ordered, not always the practice in an industry where people can be cavalier about measurements. The company is computerized so Stilin can keep close tabs on production.

Stilin opened his first sawmill in 1978, replaced it with an automated unit the following year and ran full blast into the dismal early 1980s. With two new mills, the company expects to gross $5 million in 1984. One mill was opened in 1983 in Weyauwega, the heart of Wisconsin's oak country, to capitalize on growing demand for oak, and a second in Mellen was opened earlier this year.

To some extent Stilin's profits derive from lessons learned over a lifetime of logging. His father, a Yugoslav immigrant who came to the picturesque forests of northwestern Wisconsin by himself as a 14-year-old, instilled in him the value of a dollar and the land it could buy. Stilin still owns the first 40 acres of land he bought—he paid a dollar an acre for it as a teen-ager.

Stilin has a strobe-light grin that never flags, even when he is cheering up a morose foreman. He sold expansion plans during the recession to bankers who worried that he could go under if the market for oak and pine broke. Stilin said he would survive by cutting rough wood for wood pallet makers, who use billions of board feet annually.

He does not worry about having enough trees any more. There will be plenty of wood, he says, if we manage forests properly. "And we will, because we've learned our lesson."

—Larry Van Goethem

PHOTO: LARRY VAN GOETHEM

He had quit the lumber business, but second-growth forests lured Robert Stilin back to the woods.

Where I Stand

1. Subminimum Wage For Teen-Agers?

Now that the economy is in the midst of a robust recovery, the unemployment rate has fallen well below double-digit levels. That rate, however, hides a disappointing jobless rate of more than 17 percent for teen-agers—and a heartbreaking rate of more than 34 percent for black teen-agers.

High unemployment in an age bracket in which many Americans first learn what it is like to earn a paycheck is addressed by a Reagan administration proposal for a subminimum wage. Congress is considering bills to permit workers 16 through 19 years old to take summertime jobs at $2.50 an hour, rather than at the $3.35 standard minimum wage. Passage of the legislation, it is estimated, would lead to creation of 400,000 jobs.

Opponents say that if a youth differential were approved, parents would be fired so lower-paid offspring could be hired. Supporters, including the National Conference of Black Mayors, say adults will not lose jobs because the proposal is limited to the summer and includes sanctions against substituting for adult workers.

Should there be a youth differential in the minimum wage?

2. State Action On Drinking Age?

Highway accidents are the leading cause of deaths among teen-agers—and half of those highway deaths come after alcohol has been mixed with gasoline.

Because of rising concern about what drinking teen-agers do to themselves and others, not to mention property, when they are behind the wheel, 23 states have set the minimum drinking age at 21. Now Congress and the Reagan administration have agreed that states failing to follow suit will lose a portion of their federal highway-construction aid after two years. The issue looms large in states this election year.

Opponents of this tough approach say it marks one more intrusion of the federal government into an area traditionally the province of states and that it ties funding for roads and bridges with a social issue in an illogical knot of red tape.

Supporters say that it will be a positive step toward protecting the nation's least experienced drivers and drinkers, that it will make streets and highways safer for everyone, and that it might slow the rise of insurance rates.

Should all states have a legal drinking age of 21?

3. Flatten Rate For Income Tax?

A number of proposals have been offered to make America's complex income tax system simpler and fairer.

One approach is the flat tax concept, some of whose adherents would retain certain deductions, including that for home mortgage interest. Most proposals based on the concept supposedly would not alter revenue totals, though some of us would pay more taxes and others less.

A bill sponsored by Sen. Robert Kasten (R-Wis.) and Rep. Jack Kemp (R-N.Y.) would set rates of 25 percent on investment income and 20 and 28 percent on earnings. Sen. Bill Bradley (D-N.J.) and Rep. Richard Gephardt (D-Mo.) want rates of 14, 26 and 30 percent; Sen. Dennis DeConcini (D-Ariz.) 19 percent; and Rep. Mark Siljander (R-Mich.) a 10 percent rate (with a possible large revenue decrease).

These sharp drops from the present 50 percent top rate would come at the cost of losing deductions that many taxpayers say are essential. Opponents also say such a system, by juggling rates and deductions, could be used to hide a steep tax increase.

Should the United States adopt a flat tax concept?

You can respond easily to this monthly poll on major business issues by using the attached postage-paid card. Your letters to the editor on these issues are welcome. **See box on page 10 for address.**

Verdicts on Corporate Taxes, Mergers, Clean Air Act

Readers took clear stands on the three Where I Stand questions in the June issue of NATION'S BUSINESS: Should corporate taxes be raised to cut the budget deficit? Should Congress enact a moratorium on major mergers? Should the Clean Air Act be simplified in the interest of growth?

By a margin of nearly 4 to 1, readers rejected the idea—brought up increasingly on Capitol Hill—that corporate taxes should be raised as a way to reduce the deficit. There were twice as many nays as yeas on the proposition of a congressionally imposed moratorium on megamergers in business pending a study of their economic effects. Nearly five of every six respondents said the Clean Air Act should be simplified to promote economic growth and reduce the complexity of regulations.

	Yes	No	Undecided
1. Corporate Tax Hike	19.0%	74.9%	6.1%
2. Merger Controls	29.9	59.8	10.3
3. Clean Air Act	77.5	16.2	6.3

More than 1,000 readers took part in the poll. Results will go to appropriate government decision makers.

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How the 1984 Tax Act Will Affect You

Any tax bill of 1,200 pages is bound to have a big impact.

By Peter A. Holmes

WHILE PREPARING for an expected historic debate next year on a massive simplification of the tax system, Congress took time in June to add 319 new sections, covering some 1,200 pages, to the present Internal Revenue Code.

That action may have been a temporary diversion—or it may have been a signal that the code has passed the point of no return on simplification. The answer remains to be determined in the next Congress.

In the meantime, tax lawyers, accountants and business people are studying the many changes made this year in the name of reducing the deficit $50 billion over the next three years.

The Tax Reform Act of 1984 actually calls for $66 billion in new revenues and for tax reductions of $16 billion, for the net of $50 billion. The changes affect business people as individuals, as employers, as investors and as managers of a broad range of company operations. Most will have to adopt new tax planning strategies to adjust to the new law.

Among its major provisions (effective dates appear in parentheses):

INDIVIDUALS

Income averaging. It will be permitted only when taxable income is at least 140 percent, instead of the previous 120 percent, of the average of the three (rather than four) previous years. (Tax years beginning after Dec. 31, 1983.)

Estimated taxes. To avoid penalties, payments must equal or exceed either 80 percent of the tax shown on the return or 100 percent of the tax shown on the previous year's return. Payments must also cover the alternative minimum tax. (Tax years beginning after Dec. 31, 1983.)

Workers abroad. The increase in tax-exempt income of U.S. citizens working abroad, from $80,000 to $85,000, is deferred from this year to 1988. It will then go to $95,000 in two annual steps.

Interest exclusion. The new law repeals the provision under which net interest income up to $3,000 ($6,000 on joint returns) would have been excluded from taxable income, effective with the 1985 tax year.

Interest-free loans. Retroactive to June 6, loans made at no interest or below market rates can be subject to income and gift taxes, with exceptions for those loans not used to purchase income-producing assets.

Individual Retirement Accounts. The new law repeals the provision under which the deadline for IRA contributions could be pushed back to August 15 by taxpayers who obtained an extension to that date for filing their returns. For most taxpayers, the IRA contribution deadline will be April 15, when returns are normally due. (Affects contributions made after Dec. 31, 1984.)

Alimony. The law changes the definition of tax-deductible alimony, to cash payments made for at least six years to a spouse or former spouse under a divorce or separation agreement. The change is designed to prevent use of property settlements as deductible alimony. (Affects payments resulting from agreements entered into after Dec. 31, 1984.)

Contributions. Returns claiming deductions for property contributions valued at more than $5,000 ($10,000 for stock not traded publicly) must be accompanied by a summary of an arm's-length appraisal. (Treasury Department ordered to draft implementing rules by Dec. 31, 1984.)

The deduction for use of a personal automobile as part of charitable activity is increased from 9 to 12 cents a mile. (1985 tax year onward.)

Estate and gift taxes. The drop in maximum rates is delayed. The rate will be 55 percent through 1987 and drop to 50 per-

PHOTO: DAVID VALDEZ

Writing off real estate investments will take 18 years—up 3 years—under the new law.

cent the following year. It had been scheduled to fall from the current 60 percent to 55 percent this year, and to 50 percent next year.

Telephone excise taxes. The tax of 3 percent, scheduled to expire Dec. 31, 1985, is extended for two years.

Shelters. Tax shelters sold after September 1 must be registered with the Internal Revenue Service.

Liquor taxes. The excise tax on distilled spirits is raised $2, to $12.50 per gallon. (Oct. 1, 1985.)

Diesel fuel. The excise tax is raised from 9 to 15 cents a gallon, with owners of vehicles under 10,000 pounds entitled to rebates. (July 1, 1984.)

INVESTMENTS

Holding period. The minimum holding period required to qualify for capital gain or loss on the sale of assets is now six months; previously it was 12. (Applies to acquisitions from June 22, 1984, to Dec. 31, 1988, with the impact on revenues to be evaluated before a determination is made on extension beyond the latter date.)

Deferred payment. A special accrual method must be established for deferred payments for property or services, with both parties to the agreement required to comply. (June 8, 1984.)

Rehabilitation. The rehabilitation tax credit will be available if at least 50 percent of the external walls of the rehabilitated structure are retained as external walls, compared with the earlier 75 percent requirement; at least 75 percent of the external walls are retained as either external or internal walls; or at least 75 percent of the internal structure is retained. (Applies to property placed in service after 1983.)

Discount bonds. Discounts on bonds acquired below principal must be accrued as interest income until maturity. (Applies to bonds issued after Sept. 3, 1982, and acquired after March 1, 1984.)

Straddles. Stock options are brought under 1981 rules limiting tax benefits of straddles, a strategy in which risk is minimized or eliminated by taking opposing positions on an investment. (Affects arrangements made after Dec. 31, 1983.)

At-risk losses. Most active, closely held corporations are exempted from at-risk limitations, under which deductions for losses incurred in business activities of individuals, partners and closely held corporations cannot exceed the actual amount of risk. The act also simplifies computation of at-risk amounts. (1984 tax year onward.)

Hedging. Starting in 1985, partnerships dealing in commodities will no longer be able to use hedging losses to offset other income.

BUSINESS OPERATIONS

Depreciation (real property). Depreciation is lengthened to 18 years from the present 15. (Affects property placed in service after March 15, 1984.)

Depreciation (automobiles). Depreciation on an auto is limited to $16,000 for three years, regardless of its cost, and the investment tax credit maximum is set at $1,000. These limits will be reduced according to the ratio of business and personal use of the car. (Applies to autos purchased after June 18, 1984.)

Rep. Dan Rostenkowski (left) and Sen. Bob Dole, Congress' chief tax writers, masterminded passage. One change: a limit on luxury-car write-offs.

Other depreciation. No investment credit is allowed for such property used less than half the time for business purposes. Depreciation on such property must be computed on a straight-line basis. (June 18, 1984.)

Records. Current records showing breakdown of business use of autos and other personal property will be required. The lack of such records will subject the taxpayer to a negligence penalty, in addition to disqualifying the deduction. (1985 tax year onward.)

Business property. Gains from sale will be treated as ordinary income, rather than as capital gains, to the extent of losses taken on sales for the five most recent years after 1981. (1985 tax year onward.)

Expensing. An increase in the limit on expensing of business property, scheduled to go to $7,500 this year, is postponed to 1988. The limit stays at $5,000 until then. The maximum will go to $10,000 in 1990.

Accruals. The law permitted deductions at the point that the amount of future liability could be determined, but the new law sets "economic performance" standards for determining when deductions are permissible. (Effective immediately.)

Start-up. Expenses incurred prior to opening a business may be amortized over five years, if the decision to do so is made in the first year of operation. Interest, taxes and research costs are excluded from start-up expenses. (Tax years beginning after June 30, 1984.) (See For Your Tax File, page 9.)

LIFO. Inventory accounting under the last-in, first-out method may be used only if it is also used in the company's financial reporting. (Effective immediately.)

EMPLOYES

Fringe benefits. Excluded from taxation are the value of services to an employe from an employer, provided the service is the same the employer provides to the public; employe discounts, provided sales are not made below cost; normal working benefits, such as parking, and property and services that have a negligible value. (Jan. 1, 1985.)

Cafeteria plans. Beginning next January 1, these plans will be limited to offering employes a choice between cash and specific fringe benefits, such as health insurance and group legal services, that were exempt as of last January 1.

Education. Employes receiving tuition assistance from an employer must report such amounts as income. Job-related education costs qualify as deductions, however. (Effective immediately.)

ESOPs. A scheduled increase from one half to three quarters of 1 percent in the income tax credit for contribu-

Next Month in **Nation's Business**

The Franchise Boom

Nearly a third of all retail sales are now made through franchised businesses. How the strong American urge "to be my own boss" has combined with changing shopping habits to generate explosive growth in franchising.

TV's Battle for Viewers

The major networks have dominated television throughout most of its history, but they are in an intensifying fight to retain their audience shares. An assessment of changes in TV and of the industry's likely future.

Tax Reform—or Trojan Horse?

Public opinion is pressuring Congress into simplifying the massively complex U.S. tax system. But business is primed to fight expected efforts to impose major tax increases under the guise of simplification.

The High Tech Office

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tions to Employe Stock Ownership Plans is rescinded. The credit will remain at one half of 1 percent through 1987, then expire.

Under specified conditions, an employer may take a deduction for dividends paid on employer stock held in an ESOP. Such dividends must be paid directly to participants in the plan or paid to the plan and distributed to participants. (1985 tax year onward.)

FOREIGN TRADE

FSCs. The act authorizes creation of Foreign Sales Corporations for promotion of trade by U.S. companies. This type of corporation replaces the Domestic International Sales Corporation, which had been criticized by other countries on the ground that rules allowing DISCs to defer income on overseas operations represented an illegal export subsidy. Under the new plan, part of the foreign trade income of an FSC is exempt from U.S. tax. The FSC must be established in a country that has a tax treaty or information exchange agreement with the United States or in any U.S. possession except Puerto Rico. The FSC can have no more than 25 shareholders, may issue no preferred stock and must have at least one non-U.S. citizen on its board. (FSC rules are generally applicable to transactions after Dec. 31, 1984.)

DISCs. These corporations for spurring foreign trade were authorized to defer taxes on income until it was returned to the United States. With abolition of DISCs, an estimated $12 billion in deferred taxes is forgiven.

Withholding. The present requirement for 30 percent withholding on interest paid to foreign investors is repealed, removing a hindrance to foreign investment in the United States.

MISCELLANEOUS

IDBs. The amount of Industrial Development Bonds that a state may issue annually is limited to the lesser of $150 for each resident or, in the case of the less populous states, a flat $200 million. In 1986, the per capita amount will be reduced to $100. A wide range of exceptions was written into the law to cover current projects financed by IDBs and future issues for such purposes as transit, ports and trade-show facilities.

Leases. Tax benefits from leases and service contracts with tax-exempt entities are curtailed by a requirement that straight-line depreciation be used over a longer recovery period.

Jobs Credit. The Targeted Jobs Tax Credit, scheduled to expire next December 31, has been extended through 1985. The credit is designed to encourage hiring of the disadvantaged. □

To order reprints of this article, see page 65.

What You Can Do About Washington Issues That Affect Your Business

This NATION'S BUSINESS feature advises readers how they can make their views known on important pending legislation. Correspondence to members and committees of Congress can be sent either c/o U.S. Senate, Washington, D.C. 20510 or U.S. House of Representatives, Washington, D.C. 20515.

Issue	Potential Impact On Business	Contact And Business Message
APPROPRIATIONS	Congress' success at passing lean appropriation bills will partially determine interest rates that business will be paying on its loans in the future.	Members of the House and Senate: Do not put upward pressure on interest rates by borrowing to pay for new programs or wasteful old ones. Cut the deficit by cutting spending.
DOMESTIC CONTENT	Expect immediate foreign trade retaliation if narrow-minded domestic content legislation becomes law. Enactment would cost thousands of U.S. jobs.	Members of the Senate: Do not bow to short-term election pressures by supporting a bill that is harmful in the long term. Learn by past mistakes; protectionism does not work.
BALANCED-BUDGET AMENDMENT	Congress has an opportunity, which it might not exercise, to pass an amendment to the Constitution requiring outlays not to exceed revenues except during periods of national emergency.	Members of the House and Senate: Support the effort to require Congress to pass an annual balanced budget, with tax increases limited to growth in the gross national product.
INTERNATIONAL DEVELOPMENT ASSOCIATION	IDA funding allows U.S. workers and businesses to produce more goods and services to be sold abroad, thus lowering the unemployment level and the balance of payments deficit.	Members of the House and Senate: More domestic jobs and an improved U.S. trading position will result if full funding for IDA is granted. Economic stability will be provided to developing democracies.
SUPERFUND	House leadership may grant floor time this summer to a misconceived measure that overly broadens the hazardous waste cleanup law. A multibillion dollar program, financed by business taxes, would push up prices and create open-ended liability.	Members of the House: Quick passage of Superfund reauthorization will not hasten toxic waste cleanup. Current proposal is unrealistic and unworkable. Government studies of current law's performance are needed before enacting a new law.
PRODUCT LIABILITY	Passage of legislation clarifying product liability standards would benefit everyone and block much expensive litigation like that resulting from current confusion.	Members of the Senate: Business and consumers need congressional clarification of product liability law. There is no reason to delay passage of this much-needed legislation.
EQUAL ACCESS TO JUSTICE	Bills now awaiting House and Senate floor action would provide reimbursement for court costs to individuals and small business when government acts against them unjustifiably.	Members of the House and Senate: The Internal Revenue Service must be brought under the law's authority in order to assure small business of relief from unjustified IRS action.
EXPORT ADMINISTRATION ACT	A viable export law with realistic contract and licensing provisions will strengthen the nation's trading position and give U.S. business a fair chance against foreign competition.	Members of the House and Senate: Urge conferees to adopt the Senate's contract sanctity language and the House's licensing provisions.

Labor's Blueprint For "Economic Tragedy"

In drafting recommendations for the 1984 platforms of both major political parties, the AFL-CIO was carried away by equal parts of political opposition to President Reagan and nostalgia for the New Deal.

The document presented in San Francisco and scheduled for presentation in Dallas calls for job-creating industrial expansion, but proposes tax and spending policies that would smother such expansion. It calls for enlarging world markets for U.S. goods—and for protectionism that would shrink existing markets when other nations retaliated.

It calls for capital formation for modernization of plants, and for repeal of the 1981 depreciation system that is stimulating the current boom in spending for that purpose.

Recalling the good old days of the Civilian Conservation Corps, the Works Progress Administration and similar relief programs, the AFL-CIO says, "Such programs or appropriate new versions of them should be a part of America's arsenal of defense against economic tragedy."

The labor organization's basic fiscal policy is clear-cut: A tax system that raises enough money "to meet all of the nation's economic, social and defense needs." But no balanced-budget amendment to the Constitution.

In short, the plan devised by the nation's labor leaders is far more a guarantee of economic tragedy than a plan for avoiding it.

The Farmer Takes a Beating

For a half century, the federal government has poured increasingly vast sums of money into helping protect the American farmer from the consequences of adverse weather, infestations of crop-destroying insects, economic downturns and the vagaries of the marketplace.

And how has the farmer fared under the ministrations of Washington?

Farm debt this year is $215 billion, double what it was just six years ago and 18 times what it was in 1950.

Foreclosure sales, which usually bring a dime for each dollar's worth of equipment, are more common now than they were in the early 1930s, when farmers did not enjoy such extensive protection from Washington.

More than 40 percent of those farmers who have outstanding loans with the Farmers Home Administration are behind in their payments.

The farmer's share of the food dollar has dropped from 59 to 27 cents in the past 25 years.

These and other economic conditions in the farm belt will figure prominently in the forthcoming debate over U.S. agricultural policy. (See the article starting on page 34.)

The basic law setting that policy will be up for renewal amid general agreement that it is effective for neither farmers nor taxpayers.

The outcome will determine whether the federal government begins reducing its massive presence in the agricultural economy, or whether farmers are to be beneficiaries of another half century of federal largess.

An Economics Lesson For Wall Street

Unemployment at 7.1 percent, the lowest rate in four years. The total number of employed at 105.7 million, an all-time high, with 6.5 million new jobs in the last 19 months alone. Inflation at 4.6 percent, down from 12.4 percent in 1980.

These achievements in the U.S. economy have literally made this country the envy of the industrialized world. Some Western nations have even begun to reconsider antigrowth policies in the face of the American example.

But how has the American investment community reacted? The stock market flounders, convinced that what should be the best possible economic news is really bad news. When the jobless rate fell sharply last month, so did the Dow Jones average.

Investors remain convinced that good economic news necessarily signals higher inflation, which would choke off the recovery. Meanwhile, the inflationary surge widely anticipated as the price of recovery is nowhere in sight. And the federal deficit, cited as another major, market-depressing worry, is actually declining as a result of the recovery.

It is really time for Wall Street to begin rethinking the novel concept that a faltering economy enhances the investment climate. □

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